Národná banka Slovenska
Eurosystém

Annual Report 2012

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NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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FOREWORD

Foreword

For Národná banka Slovenska (NBS), 2012 was its fourth year as a member of the Eurosystem. NBS continued to perform its main tasks as a Eurosystem member by participating in the common monetary policy, issuing euro banknotes and coins, promoting the smooth and cost-effective functioning of payment systems, regulating, coordinating and overseeing currency circulation, managing foreign reserves, and carrying out foreign exchange operations and other activities related to its membership of the European System of Central Banks. In addition to its standard central bank's duties, NBS represents the supervisory authority for the whole financial market in Slovakia. The primary objective of NBS is to maintain price stability.

Last year saw the persistence of adverse conditions in the external economic and financial environment. Although ECB interventions brought some stability to financial markets, the uncertainty associated with excessive sovereign debts continued. Global economic growth decelerated, and the euro area economy slid into a recession that became deeper as the year went on.

Although the Slovak economy's annual growth rate declined, it remained among the highest in the EU. The comparatively robust growth in domestic production was in large part due to the launch of new investment projects in the automotive industry. With exports growing faster than imports, Slovakia reported a trade surplus as well as a surplus in the balance of payments current account (the first annual surplus since 1995). Domestic demand remained muted amid a difficult situation in the labour market, and it contributed negatively to economic growth.

Early in the year consumer price growth in Slovakia was relatively high, particularly in comparison with other euro area countries, the main cause being adjustments to administered prices. Although domestic inflation decelerated during 2012, its average rate for the year was 3.7%. If expectations for energy and food inflation materialise, the headline inflation rate in Slovakia is projected to continue falling gradually towards the target rate of 2%.

Monetary policy in the euro area remained accommodative in 2012, as headwinds became stronger and inflationary pressures were largely absent. In July 2012 the ECB cut its key rate by 25 basis points, from 1% to 0.75%. The width of the standing facilities corridor remained unchanged, as the deposit facility rate was reduced to zero. Interbank market activity remained subdued throughout the year. Banks obtained most of their funding directly from the ECB, with their demand heavily outweighing their actual needs. Consequently, banks drew an increased amount of long-term funds from the ECB. The euro area banking sector reported a large liquidity surplus for the year as a whole, boosted also by a reduction in the minimum reserve ratio, from 2% to 1%.

In an environment of low interest rates, the influence of standard monetary policy was heavily circumscribed, and therefore non-standard monetary policy operations had a more significant role. As financial markets remained strained, the ECB decided to establish a new programme, called Outright Monetary Transactions (OMTs), and, at the same time, it terminated the Securities Markets Programme. The OMT programme provides for unlimited purchases of sovereign bonds with a maturity of between one and three years. A necessary condition for initiating OMTs is that a euro area country activates an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. Since no country had activated such programme by the end of 2012, no OMTs were conducted in that year. Nevertheless, the very fact that the OMT programme was announced – and the intensification of cooperation between European institutions and Member States in seeking a solution to the sovereign debt crisis – helped to reduce risk premia in bond markets of euro area periphery countries and resulted in a stabilisation of financial markets towards the end of 2012.

The euro's exchange rate was relatively volatile during the course of the year. The exchange rate against the US dollar initially appreciated in response to the approval of a second bailout package for Greece and to a first write-down of the country's debt, and in February it reached its highest level of the year (1.345 USD/EUR). The euro then began to depreciate in the face of increasing headwinds from the euro area periphery and by July it was at its lowest level of 2012 (1.209 USD/EUR). The subsequent easing of uncertainty, and appreciation of the euro, was due in large measure to the ECB President's statement in which he announced the ECB's readiness to activate a new asset purchase programme. At end-2012 the euro was trading 2% higher year-on-year against the US dollar.

As at 31 December 2012 the cumulative net issuance of euro cash in Slovakia stood at almost €8.3 billion, which was an increase of 12.7% over the 12 months. In 2012 Národná banka Slovenska procured an allocated share of €20 banknotes, commensurate with its share in the ECB's capital, and it participated in the procurement of the pilot production of the second series of euro banknotes. The central bank also procured the production of 10.5 million 1 cent euro coins and the production of one million €2 commemorative coins marking ten years of euro banknotes and coins. In addition, NBS issued five different precious-metal collector euro coins.

Turning to payment systems, the number of transactions processed in the SIPS retail payment system maintained a rising trend in 2012, with an annual growth rate of 5.4% (the increase in value terms was less than one percent). As for the TARGET2-SK payment system, it processed 279,000 transactions in 2012 with a total value of over €840 billion. In comparison with 2011, the TARGET2-SK traffic increased in volume by 49% and in value by 19%.

NBS faces an increasing number of tasks as a member of the Eurosystem, and consequently its staff members are becoming more heavily involved with the work of Eurosystem/ESCB specialist committees. Nevertheless, the central bank managed to achieve further efficiencies in its operations and reduced its total number of employees in 2012. By the end of the year, NBS had 1,007 employees.

For 2012 NBS reported a profit of almost €200 million, a positive result that was largely attributable to net interest income and to the net profit on financial operations. In accordance with a decision of the NBS Bank Board, the profit was used to cover losses from previous years. A general provision for financial risks was established at the end of 2012 and it amounted to €250 million.

Several steps towards deeper integration in the Economic and Monetary Union (EMU) were taken in 2012, the ultimate objective being to establish a genuine economic and monetary union based on the integration of financial markets, economic policy, and fiscal policy. In this regard, in the second half of the year, the European Commission submitted a draft regulation on the establishment of the Single Supervisory Mechanism (SSM) as the first pillar of a banking union. The SSM, in which the ECB will have a central role, is for euro area countries, but it will also be open to EU Member States outside the euro area.

Slovakia is among the group of countries whose central bank has the dual role of financial market supervisory authority. NBS is therefore very familiar with harmonising responsibilities for monetary policy and financial market supervision. The establishment of a banking union is necessary to remove the negative feedback loop between the financial stability of sovereigns and the sustainability of their government debt, and it should pave the way for a more efficient transmission of monetary policy throughout the euro area. Further discussions on the SSM will, however, have to address the challenging issue of how best to allocate competences and responsibilities between national and supranational supervisory authorities.

March 2013

Jozef Makúch
Governor

CHAPTER 1

MACROECONOMIC DEVELOPMENTS

1

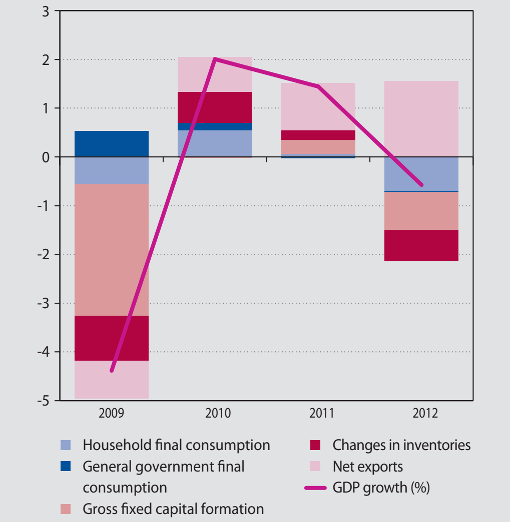
1 Macroeconomic developments

1.1 The external economic environment

1.1.1 Global trends in output and prices

Global economic growth slowed to 3.2% in 2012, down from 3.9% in 2011.[1] Advanced economies saw a gradual softening of economic activity and several of them slid into recession. This reflected persisting concerns about the sovereign debt crisis in certain euro area countries and the effects of ongoing fiscal consolidation measures. The labour market remains depressed despite improving in a number of major economies. In emerging economies, growth continued to outpace growth in advanced economies, but it was also decelerating, amid fears about global economic developments and a decline in foreign trade. Global foreign demand growth slumped to 2.8% in 2012, from 5.9 % in the previous year.

Chart 1 Contributions to annual GDP growth (p.p.)



Source: Eurostat.

The weakening of global activity had a moderating effect on price growth, with the average annual inflation rate in advanced economies falling to 2.0% in 2012, from 2.7% in the previous year. Inflationary pressures were contained by the slow pace of economic recovery, and inflation expectations were firmly anchored. In emerging economies, too, there was a decline in annual average inflation, from 7.2% in 2011 to 6.1% in 2012. Although commodity prices were relatively volatile over the year, they were not a significant source of inflationary pressure.

1.1.2 Economic developments in the euro area

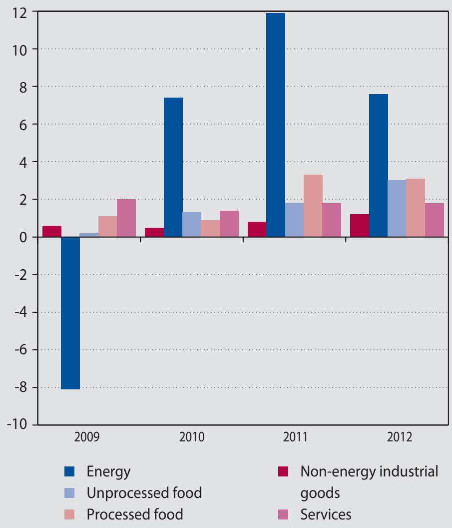
Annual economic growth in the euro area slowed compared to 2011 (1.4%), as GDP declined by 0.6% in 2012. Domestic demand made a negative contribution to growth, as investment and private consumption declined amid weak business and consumer confidence, tight credit conditions, and ongoing tensions related to the debt crisis. Net exports contributed positively to growth, with exports rising moderately and imports falling. The economic downturn was reflected in the labour market, as the unemployment rate edged up over the year, from 10.7% in December 2011 to 11.8% in December 2012. The labour market situation weighed on private consumption. General government final consumption remained flat under the constraints of fiscal consolidation measures.

Annual average inflation as measured by the HICP was 2.5% in 2012, 0.2 percentage point lower than in the previous year. The inflation rate remained above 2% throughout the year. Indirect tax hikes in certain euro area countries put upward pressure on the headline rate, while a slowdown in commodity price inflation exerted downward pressure. Inflationary pressures from the labour market were subdued. Annual HICP inflation slowed to 2.2% in December 2012, from 2.7% in December of the previous year. Core inflation (i.e. the HICP rate excluding prices of energy and unprocessed food) remained largely unchanged in 2012. Its average level for the year was 1.8% (compared to 1.7% in 2011).

The exchange rate of the euro against the US dollar was marked by recurring volatility during 2012. This was largely a response to market expectations regarding economic developments in the euro area as well as to movements in credit risk premia stemming from the euro area sovereign debt crisis. The exchange rate was also

1 *Growth estimate from the IMF's World Economic Outlook Update (January 2013).*

Chart 2 Annual HICP inflation broken down by components (%)



Source: Eurostat.

affected by measures taken at various levels to mitigate the debt crisis. The euro's exchange rate against the dollar was 2.0% stronger at the end of 2012 than at the end of 2011.

The ECB's Governing Council adjusted the key ECB interest rates on only one occasion in 2012, deciding at its meeting on 5 July to lower the interest rate on the main refinancing operations of the Eurosystem by 25 basis points to 0.75% (starting from the operation to be settled on 11 July 2012) and to cut the interest rates on the marginal lending facility and the deposit facility by 25 basis points, leaving them at 1.50% and 0.00% respectively (with effect from 11 July 2012).

In 2012 the Governing Council continued to use non-standard measures in order to strengthen the transmission mechanism between the accommodative monetary policy stance and the real economy, in line with maintaining price stability over the medium-term horizon. Back in December 2011 the Governing Council decided to conduct two longer-term refinancing operations (LTROs) with a maturity of 36 months and the option of early repayment after one year; the first was conducted that December and the second in February 2012. These operations helped to improve the financial environment in the first months of 2012 and to ease tensions in financial markets. The Governing Council also decided to continue conducting its main refinancing operations as fixed rate tender procedures with full allotment at least until middle of 2013. Furthermore, in February and June, it expanded the scope of acceptable collateral for Eurosystem operations. In December the Governing Council decided to extend the existing foreign-currency swap arrangements with other central banks. Besides non-standard measures focused on refinancing operations, the Governing Council approved measures aimed at stabilising financial markets and supporting their functionality. In August 2012 it decided that the ECB may, as appropriate, support monetary policy transmission by conducting Outright Monetary Transactions (OMTs) in secondary markets for sovereign bonds in the euro area. OMTs must be conducted in compliance with stipulated conditions and there will be full sterilisation of the liquidity created through them. The decision to proceed with OMTs was accompanied by the termination of the Securities Markets Programme (SMP); the liquidity injected through the SMP will continue to be absorbed as in the past and the existing securities in the SMP portfolio will be held to maturity.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Annual GDP growth in Slovakia slowed to 2.0% in 2012, from 3.2% in 2011, according to preliminary figures from the SO SR. External demand was the main driver of growth, although its rate of increase gradually decelerated. Domestic demand made a negative contribution to GDP growth, largely because investment declined amid a drop in company profits, and also due to lower private and government consumption. Growth according to the output measure of GDP was based mainly on industry and certain services. Net taxes on products contributed negatively to growth due to the base effect of a one-off VAT payment on a completed PPP project made at the end of 2011.

The balance of payments current account improved markedly in 2012, posting a surplus of 2.3% of GDP. The strongest-performing component was the trade balance, which reflected higher exports in the automotive industry as well as declines in import intensity and domestic demand.

In the labour market, the post-crisis recovery impulses began to fade in 2012. Employers managed to increase value added and total GDP even while employment remained virtually unchanged. As the number of job seekers entering the labour market exceeded the number of new job vacancies, the unemployment increased over the year. The situation became particularly adverse in the last quarter, when there was a relatively large drop in employment. The number of hours worked declined amid subdued demand for labour, whereas in the previous year they had increased. The annual growth rate of nominal wages accelerated slightly, but insufficiently for an increase in real wages. Labour productivity growth increased in both nominal and real terms and again outpaced real wage growth. Consequently, the annual growth rate of unit labour costs remained virtually unchanged.

Average annual HICP inflation slowed to 3.7% in 2012, from 4.1% in the previous year, and the average inflation rate in December 2012 was 3.4% (1.2 percentage points lower than in December 2011). December's lower than average inflation rate was attributable to services prices, which in the last two months were affected by the base effect of rail price increases at the end of 2011.

1.2.1 Price developments

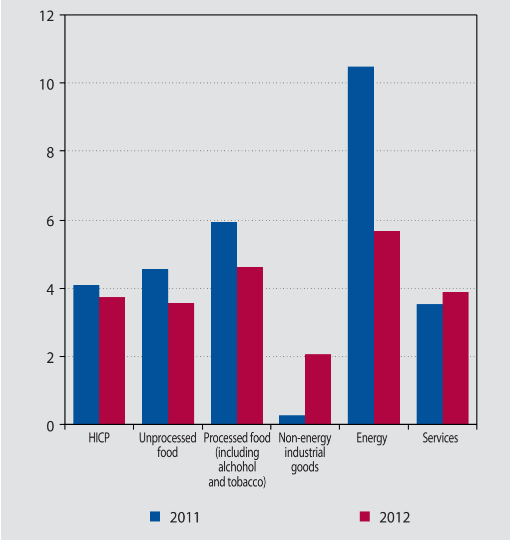
Consumer prices

Inflation as measured by the Harmonised Index of Consumer Prices (HICP)

The average inflation rate decelerated to 3.7% in 2012, from 4.1% in the previous year, owing mainly to external factors and in particular to a lower increase in administered prices of food and energy. Increases in excise taxes on cigarettes, introduced as part of the fiscal consolidation effort, added approximately 0.1 percentage point to the inflation rate.

As for prices of non-energy industrial goods, their annual rate of change increased moderately, in line with developments in the euro area. Pharmaceutical product prices accounted for most of the increase in this component, while motor vehicle prices, which fell year-on-year, had a slightly decelerating effect.

Chart 3 Inflation components (average annual percentage changes)



Source: SO SR, NBS calculations.

Services price inflation was moderately higher in 2012 than in 2011. A marked rise in rail prices at the end of 2011 caused the annual rate of change of the services component to increase in 2012. This effect faded in November 2012, and the growth rate of service price inflation slowed noticeably. Services prices stripped of the effect of administered price changes increased only moderately in year-on-year terms, as domestic demand remained muted. The inflation in services prices was attributable to increases in prices of food and energy (food service prices) and probably also to wage growth in the health-care and social services sectors and to price convergence in personal care services.

Producer prices

Looking at how producer prices changed in 2012 in comparison with the previous year, industrial producer price inflation increased significantly while construction prices (work and material) and agricultural prices recorded lower increases.

The annual growth rate of industrial producer prices (3.9%) in 2012 was driven mainly by energy price inflation, although the pipeline pressures in this case were probably mitigated by softening demand and increasing competition. That also explains why the increase in

Table 1 HICP inflation (average for the period; annual percentage changes)

	2011		2012					
	Dec.	Q1-Q4	Q1	Q2	Q3	Q4	Dec.	Q1-Q4
Headline rate	4.6	4.1	4.0	3.6	3.8	3.6	3.4	3.7
Goods	4.4	4.3	3.8	3.5	3.6	3.7	3.6	3.7
Industrial goods	4.5	3.7	4.0	3.7	3.2	2.8	2.7	3.4
Non-energy industrial goods	1.0	0.3	1.5	2.2	2.1	2.3	2.3	2.0
Energy	11.2	10.5	7.9	6.2	5.0	3.6	3.3	5.7
Food	4.3	5.5	3.6	3.1	4.5	5.5	5.4	4.2
Food – processed (including alcohol and tobocco)	6.8	5.9	6.4	5.0	3.5	3.7	3.3	4.6
Food – unprocessed	-0.6	4.5	-1.4	-0.1	6.9	9.5	10.1	3.6
Services	5.0	3.5	4.2	3.9	4.1	3.3	2.9	3.9
Core inflation (headline rate excluding energy and unprocesssed food prices)	3.8	2.7	3.6	3.5	3.2	3.0	2.7	3.3
Headline rate excluding energy prices	3.4	2.9	3.1	3.1	3.5	3.6	3.4	3.3

Source: NBS calculations based on SO SR data.

industrial producer prices in 2012 was only one-third as high as in the previous year; inflation declined in all segments of manufacturing producer prices.

As for agricultural prices, their annual rate of change in 2012 was affected mainly by rising crop product prices in the second half of the year, which to some extent was caused by the base effect of a decline in these prices at the end of 2011.

1.2.2 Gross domestic product

Slovakia's gross domestic product (GDP) at constant prices grew year-on-year by 2.0% in 2012, compared to 3.2% in 2011, according to preliminary figures from the SO SR.

Table 2 Average annual producer price inflation (%)

	2011	2012				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Industrial producer prices	2.7	3.6	4.0	4.0	4.0	3.9
Mining and quarrying	5.0	5.1	7.1	5.3	3.0	5.1
Manufacturing	4.1	1.3	1.2	0.9	2.0	1.3
Energy	0.8	6.7	7.7	8.1	6.4	7.3
Water supply and sewage disposal	5.2	2.9	4.9	5.8	5.8	4.9
Construction work prices	1.2	0.3	0.6	0.8	0.8	0.6
Building material prices	1.8	1.7	2.1	1.0	1.3	1.5
Agricultural producer prices	16.7	-0.8	-0.1	4.7	16.8	6.9
Crop products	22.0	-14.0	-10.5	6.8	23.9	9.3
Livestock products	10.8	7.5	4.1	0.4	4.4	4.0

Source: SO SR.

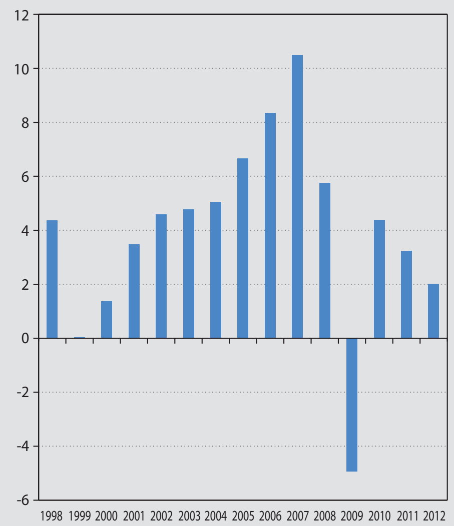
Looking at the expenditure measure of GDP, most of the growth was accounted for by foreign demand, which nevertheless decelerated gradually. Domestic demand declined due to a fall in investment as well as to declines in both private and general government consumption. Growth in the output measure of GDP was largely attributable to industry and certain services. Nominal GDP in 2012 amounted to €71,463 million, which was 3.4% higher year-on-year.

Supply side of GDP

The GDP figure for 2012 included an increase in the annual growth rate of value added at constant prices, to 3.2% (from 2.7% in 2011). There was, however, a negative contribution to GDP growth from net taxes on products (value added tax, excise tax, and import tax, less subsidies), which decreased by 9.2% mainly due to the base effect of a one-off VAT payment on a completed PPP project made at the end of 2011.

The most marked increases in value added were in the sectors of industry, information and telecommunication services, real estate services, and other specialised services. By contrast, value added declined in agriculture, construction, and financial services.

Chart 4 Real GDP (annual percentage changes)



Source: SO SR.

Demand side of GDP

As regards the expenditure measure of GDP, net exports accounted for most of the growth in 2012, while domestic demand made a negative contribution with a further annual decline (including a running down of inventories).

Domestic demand contributed negatively to GDP due mainly to a fall in investment as well as to declines in household consumption and general government consumption. Household final consumption maintained a downward trend amid high unemployment and low consumer confidence, despite an increase in household disposable income that reflected higher social benefits. Consumers continued to prefer saving over consumption, as the high level of the saving ratio confirmed. The decline in general government consumption stemmed from a cautious fiscal policy. Further downward pressure on household and general government consumption in 2012 came from gross fixed capital formation, which fell due to a downturn in firms' profits. The most pronounced declines in investment were reported by firms in the sectors of manufacturing, real estate activities, and administrative services.

In 2012 export growth increased gradually and then slowed in the second half of the year. The amount of exports and services increased by

Table 3 GDP and its components (index: same period a year earlier = 100; constant prices)

	2011	2012				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross output	105.6	104.9	102.7	102.0	100.0	102.4
Intermediate consumption	107.5	105.8	102.2	101.6	98.3	101.8
Value added	102.7	103.5	103.6	102.8	103.0	103.2
Net taxes on products [1)]	109.0	96.8	93.1	94.8	81.0	90.8

Source: SO SR.
1) Value added tax, excise tax, and import tax, less subsidies.

Table 4 Expenditure measure of GDP (index: same period a year earlier = 100; constant prices)

	2011	2012				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross domestic product	103.2	102.9	102.6	102.1	100.7	102.0
Domestic demand	101.2	99.2	94.6	96.7	98.1	97.1
Final consumption	98.5	100.1	99.3	99.5	99.0	99.4
Household final consumption	99.5	99.9	99.7	99.4	98.8	99.4
General government final consumption	95.7	100.5	97.9	99.6	99.7	99.4
Non-profit institutions serving households	100.2	98.9	99.1	99.7	100.0	99.4
Gross fixed capital formation	114.2	96.7	97.5	96.3	95.0	96.3
Exports of products and services	112.7	105.0	110.8	111.6	107.1	108.6
Imports of products and services	110.1	99.8	101.6	105.7	104.2	102.8

Source: SO SR.

10.2% at current prices, while imports of goods and services grew at a far slower pace (5.2% at current prices), due mainly to declining import intensity, low domestic demand, and uncertainty about future developments. As a consequence, nominal net exports in 2012 reached an all-time high of €3,553.6 million. As regards price developments, the import deflator increased more sharply than the export deflator, resulting in a slight deterioration in the terms of trade. Import prices, however, were affected by an increase in commodity prices.

Both the export performance and import intensity of the Slovak economy increased year-on-year in 2012, by around 5.9 p.p. and 1.5 p.p. respectively. The openness of the Slovak economy, as measured by the ratio of exports and imports of goods and services to nominal GDP, increased by 7.4 percentage points to 186.3%.

1.2.3 The labour market

The labour market situation began to deteriorate in 2012 as uncertainty increased. Employers were taking a cautious approach to hiring and were not under pressure to increase wages. Consequently, employment remained flat and the unemployment rate increased, while wage growth rose only slightly in nominal terms and fell in real terms.

Employment

Employment (according to ESA 95 methodology) increased year-on-year by only 0.1% in 2012, compared to a rise of 1.8% in 2011. Its annual rate of change declined in each quarter, and entered negative territory in the second half of the year. The number of hours worked fell by 0.4% in comparison with the previous year. The sectors that accounted for most of the slowdown in annual employment growth were industry (where employment fell 0.8% year-on-year), and trade and transportation (with a drop of 0.7%). There were smaller negative contributions to employment growth from agriculture and from information and communication. By contrast, professional, scientific, technical and administrative activities contributed positively to employment growth, as did public administration, defence, education, and human health activities. According to the Labour Force Survey, the number of people working abroad in 2012 increased year-on-year by 4.8% (or by 5,500 people), and the number working in the domestic economy rose by 0.4%. On the other hand, the number of self-employed people fell by 2.4%.

Unemployment

According to the Labour Force Survey, the number of unemployed increased year-on-year by 3.5% in 2012 amid a deteriorating labour market situation; consequently, the unemployment rate rose by 0.5 percentage point, to 14.0%. The registered unemployment rate based on data from Labour, Social Affairs and Family Offices averaged 13.6% in 2012, which was 0.4 percentage point higher than in the previous year.

Table 5 Labour market indicators

	2011	2012				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wage (index)	102.2	103.2	101.5	102.0	103.2	102.4
Real wage (index)	98.4	99.4	98.1	98.4	99.4	98.8
Nominal compensation per employee – ESA 95 (index)	101.1	101.5	102.1	101.4	103.2	102.0
Labour productivity based on GDP (index, current prices)	103.1	103.7	103.4	103.8	102.6	103.4
Labour productivity based on GDP (index, constant prices)	101.4	102.2	102.3	102.2	101.2	102.0
Employment – ESA 95 (index)	101.8	100.6	100.2	99.9	99.4	100.1
Unemployment rate – LFS[1] (%)	13.5	14.1	13.6	13.7	14.4	14.0
Nominal unit labour costs (ULC)[2]	99.6	99.2	99.8	99.2	102.0	100.1

Source: SO SR, NBS calculations.
1) Labour Force Survey.
2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 95) at constant prices.

Wages and labour productivity

The average monthly nominal wage in 2012 increased to €805, and its annual rate of growth accelerated by 0.2 percentage point, to 2.4%. The sectors that recorded the highest nominal wage growth were financial and insurance activities (7.3%), human health and social work activities (6.6%), industry (4%), and information and communication (3.9%). By contrast, average nominal wages in the sectors of real estate activities and administrative services were lower compared to the previous year. With inflation continuing to exceed wage growth, real wages declined by 1.2% in 2012 (after falling by 1.6% in 2011). Since GDP growth was accompanied by only a modest rise in the number of employed people, 2012 saw an increase in the annual growth rate of labour productivity (measured by GDP per employed person). The annual growth rate of real labour productivity exceeded that of real wages by 3.2 percentage points, similar to the margin of difference in the 2011. This situation is favourable in view of the potential weak inflationary pressures and elevated competitiveness in the economy; on the other hand, it is weighing on final consumption. The gap between labour productivity growth and wage growth was reflected in the annual rate of change in unit labour costs, which remained subdued at 0.1% (0.5 percentage point higher than their annual rate of change in 2011).

1.2.4 Financial results

In 2012, according to preliminary data from the SO SR, profits of non-financial and financial corporations in Slovakia amounted to €10,471.8 million, down by 2.7% from 2011 (when the aggregate profit increased by 17.7% year-on-year). Non-financial corporations accounted for most of the decline, as their profitability fell year-on-year by 8.1% (after rising by 12.2% in 2011). With domestic demand softening and input prices rising, not even the fact of labour productivity growth being higher than wage growth could prevent a slump in firms' profits. As for the aggregate profit of the financial sector (not including NBS), it increased by 17.7% in 2012 (compared to a rise of 12.4% in 2011).

Non-financial corporations made an aggregate profit of €8,857.4 million in 2012, which was €784.9 million lower compared to 2011. This decline was due largely to the aggregate loss in the health-care sector (in 2011 this sector made a profit based on the write-down of hospital debts at the year end). Looking at non-financial corporations outside the health-care sector, the annual decline in their aggregate profit was €420.6 million or 4.5%, (instead of the officially recorded annual decline of 8.1% in the profitability of non-financial corporations). Profits fell substantially in the sectors of construction, real estate activities and trade. Industrial firms made a slightly negative contribution, as a decline in profitability in the energy sector was largely offset by profit growth in the manufacturing sector, with most of that increase accounted for by the manufacturing segment of coke and refined petroleum products. Profits in the manufacture of transport equipment maintained their upward trend in 2012.

The profitability of the financial sector (not including NBS) in 2012 increased by €212.9 million year-on-year, to €1,415.0 million. At the same time, however, the composition of the aggregate profit in 2012 was markedly different from the previous year. Most of the profitability growth was attributable to other financial intermediaries (which include, for example, leasing companies, private health insurers, stock exchanges, and pension fund management companies), as their aggregate profit increased by 633.2% in 2012, after falling by 65.2% in 2011. This result offset the adverse trend in the banking sector, where the profitability of monetary financial institutions (not including NBS) fell by 30.4%. The drop in banks' profits stemmed mainly from a decline in interest income and from the imposition of a special levy on selected financial institutions. As for insurance corporations and pension funds, the annual growth rate of their aggregate profit slumped to 3.3%, from 400% in 2011.

1.2.5 Balance of payments

Current account

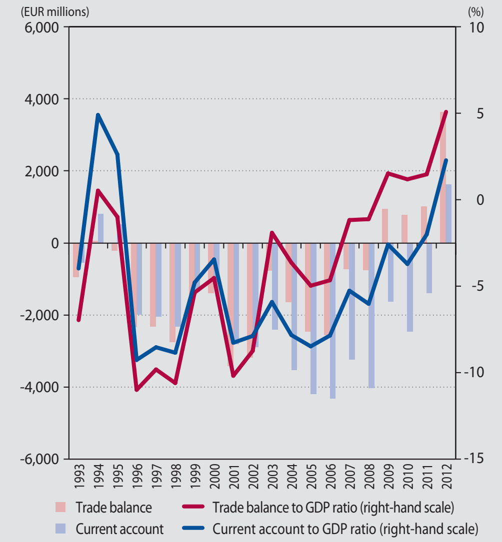
The balance of payments current account for 2012 recorded a surplus of €1.6 billion, which was substantially higher than the surplus for 2011 and reflected mainly an improvement in the trade balance. The ratio of the current account surplus to GDP (at current prices) stood at 2.3% in 2012, representing a year-on-year increase of 4.3 percentage points.

Table 6 Balance of payments current account (EUR billions)

	2012	2011
Trade balance	3.6	1.0
Exports	62.8	56.8
Imports	59.2	55.8
Services balance	0.3	-0.4
Income balance	-1.7	-1.7
of which: investment income	-3.0	-2.9
of which: reinvested earnings	-0.6	-1.2
Current transfers balance	-0.6	-0.3
Current account in total	1.6	-1.4
Current account to GDP ratio (%)	2.3	-2.0

Source: NBS and SO SR.

Chart 5 Current account and trade balance developments between 1993 and 2012



Source: NBS and SO SR.

The trade surplus growth was driven by an increase in automotive exports, as the production launch of new car models allowed domestic car makers to increase their share of existing markets and also to expand into new markets. Further contributing to the higher trade surplus was a decline in import intensity, which was reflected in the gap between export growth (10.7%) and import growth (6.2%).

The services balance went from a deficit in 2011 to a surplus in 2012 due to results in the categories of *other services in total* and, to a lesser extent, *transportation*. The *travel* category, by contrast, saw a moderate decrease in its surplus, as expenditure grew more sharply than receipts. In the case of *other services in total*, most of the increase in receipts stemmed from growth in external demand.

The income balance remained unchanged from 2011, as an increase in interest payments was offset by higher remittances from Slovak residents working abroad.

The current transfers balance deteriorated year-on-year due mainly to an adverse result in the *other transfers* category (caused by a combination of lower receipts and higher expenditures).

Capital and financial account of the balance of payments

The capital and financial account of the balance of payments generated a surplus of €1.0 billion in 2012 (compared with a surplus of €3.4 billion in 2011).

In the category of *direct investment*, the inflow increased year-on-year owing mainly to the inflow of other capital, which reflected a decline in claims on direct investors as well as on foreign direct enterprises.

The category of *portfolio investment* saw a shift from the previous year's moderate outflow to an inflow, based on activities of the government (issuance of government bonds) and NBS.

In the category of *other investment*, the inflow was higher in 2012 than in 2011 due largely to developments in the Government and NBS sector, where the outflow of deposits from accounts with NBS was only partly counterbalanced by the inflow from the drawing of loans.

Table 7 Capital and financial account of the balance of payments (EUR billions)

	2012	2011
Capital account	1.4	0.9
Direct investment	2.2	1.1
abroad	0.1	-0.4
of which: equity capital	0.0	-0.1
reinvested earnings	0.0	0.4
in Slovakia	2.1	1.5
of which: equity capital	0.3	0.8
of which: non-privatisation FDI[1)]	0.3	0.8
reinvested earnings	0.7	0.8
Portfolio investment and financial derivatives	8.2	-0.5
Other long-term investment	0.3	1.1
Other short-term investment	-11.1	0.8
Capital and financial account in total	1.0	3.4

Source: NBS.
1) FDI – foreign direct investment.

External debt of Slovakia

As a result of developments in the balance of payments, the external debt of Slovakia increased by €0.8 billion (USD 2.4 billion) to €53.8 billion (USD 70.9 billion), mainly due to heightened demand for government bonds and to a reduction in the short-term foreign liabilities of the Slovak Government and NBS in cash and deposit items, along with an increase in the central bank's stock of short-term borrowings. According to preliminary data, Slovakia's ratio of total gross external debt to GDP at current prices was 77.8% as at 31 December 2012, compared to 76.7% at the end of 2011. The country's net debtor position increased by €4.4 billion between end-2011 and end-2012, to stand at €18.9 billion. Over the same period, the ratio of short-term external debt to total gross external debt fell by 13.8 percentage points, to 39.7%.

Nominal and real effective exchange rates[2]

On average in 2012 the nominal effective exchange rate (NEER) depreciated year-on-year by 0.8%, after appreciating by 0.1% in the previous year. Of that depreciation, weakening against the Chinese yuan contributed 0.7 percentage point. Also contributing negatively were exchange rates against the currencies of key non-euro area trading partners, including the Korean Republic, the United Kingdom, the United States, and Russia. By contrast, the exchange rates against the currencies of the other V4 countries had a mitigating effect on the NEER's depreciation.

The combination of a weakening NEER and a negative inflation differential vis-à-vis Slovakia's most important trading partners caused the real effective exchange rate (REER) based on manufacturing prices to depreciate by 1.5%. The rate of the REER's depreciation was 0.6 percentage points slower in comparison with the previous year. Since higher domestic labour productivity growth in comparison with partner countries created some scope for possible REER appreciation without jeopardising the economy's balance, the price competitiveness of domestic firms increased. A further sign of growth in Slovakia's competitiveness was provided by the trade balance, which improved with support from the depreciating REER and despite a downturn in external demand (caused by the sovereign debt crisis).

2 The methodology of the effective exchange rate calculation is published on the NBS website at: http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf

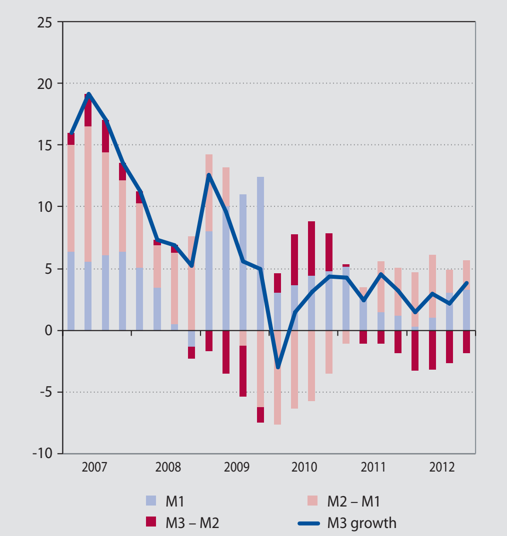
1.2.6 Monetary developments

Monetary aggregates and retail interest rates

In 2012 monetary indicators reflected trends in the real economy. Households' propensity to save increased amid negative consumer sentiment, deterioration in the labour market situation, and decelerating economic growth. Meanwhile, the deposit and lending activities of non-financial corporations were affected by uncertainty in the corporate sector. All these factors were at play in M3 movements in 2012. Interest rate changes contributed significantly to a shift in preference for short-term time deposits over long-term deposits outside M3, as evidenced by the contributions to M3 growth from different components. The largest increase was in the contribution of M1 deposits, and there was also a positive contribution to M3 growth from the less liquid M2-M1 component. Marketable instruments, which have been declining for a long time, contributed negatively to M3 growth. Their downward trend reflects falling investment in money market funds (due partly to the certain MMFs being reclassified into other fund categories, in line with changes in ECB methodology) and a decrease in the issuance of two-year debt securities.

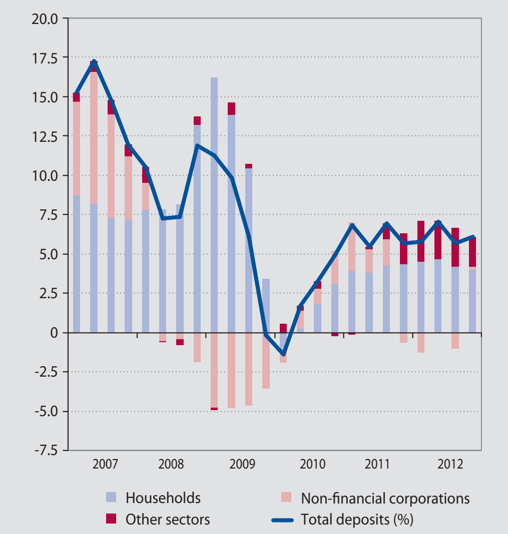
Sectorally, M3 growth was driven mainly by households, which shifted funds into short-term

Chart 6 M3 growth by contribution of components (p.p.; annual percentage changes)



Source: NBS.

Chart 7 Private sector deposits – contributions to their annual rate of change (quarterly average; p.p.; annual percentage changes)

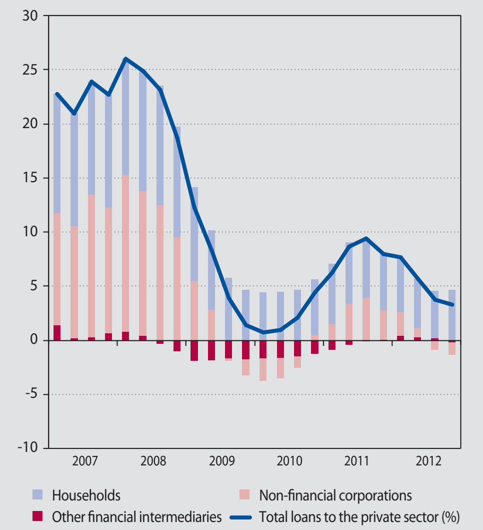


Source: NBS.

time deposits in response to the narrowing gap between interest rates on long-term and short-term deposits. Although shorter-term deposits attracted lower interest rates, their main advantage was greater liquidity. Households were therefore largely cautious in their saving behaviour. Although deposits from non-financial corporations increased moderately towards the end of 2012, they contributed negatively to private sector deposit growth over the year as a whole. This stemmed from the deteriorating economic situation, as slumps in both consumption and investment weighed on sales growth. A significant positive contribution to M3 growth came from deposits of other sectors (other financial intermediaries, insurance corporations and pension funds). Investments funds in particular increased their bank deposits, probably in preference to other investment products.

Turning to the counterparts of M3, bank lending activity increased, but the pace of lending growth decelerated over the year. Loans to households, seen as lower risk, showed the largest increase, and households' demand for loans held up throughout the year. Most of their new borrowing was in the form of housing loans, demand for which was boosted by a slight decline in lending rates and falling property prices. The

Chart 8 Loans to the private sector – contributions to their annual rate of change (p.p.; annual percentage changes)



Source: NBS.

stock of consumer credit increased in the second half of the year. The stimulus that low market rates gave to demand for loans among non-financial corporations lasted only until mid-year. Up to that point, economic activity was increasing at a relatively respectable pace and expectations were not pessimistic. In the second half, however, sentiment deteriorated and lending to non-financial corporations declined sharply, which reflected also a moderate tightening of credit standards. Lending to non-financial corporations was squeezed from both the supply and demand sides since, on the one hand, banks began demanding repayment of loans and, on the other hand, firms facing uncertain times were seeking to reduce their debt burden.

EUROSYSTEM MONETARY POLICY IMPLEMENTATION, FOREIGN EXCHANGE OPERATIONS, AND MANAGEMENT OF INVESTMENT ASSETS

2

2 Eurosystem monetary policy implementation, foreign exchange operations, and management of investment assets

2.1 MONETARY POLICY OPERATIONS

The European Central Bank (ECB) implements monetary policy through the national central banks of the Eurosystem by means of various monetary policy instruments. The most widely used of these instruments are the main refinancing operations (MROs), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and standing facilities, which include the deposit facility (DF) and marginal lending facility (MLF).

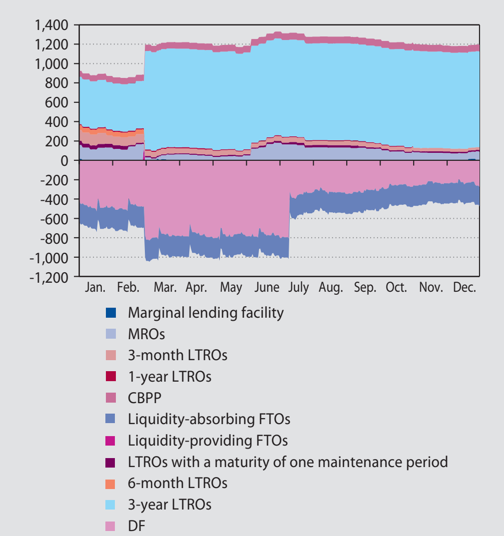
In response to the deepening financial crisis in the euro area, the ECB continued to conduct operations as fixed rate tender procedures with full allotment. The decision to continue this procedure, at least until the end of the last maintenance period of 2012, was taken by the ECB's Governing Council at its meeting in June. In 2012 the ECB did not decide to take any additional non-standard monetary policy measures. A 12-month longer-term refinancing operation matured in the last quarter of the year, without further prolongation by the ECB.

Activity in the interbank market remained mainly weak throughout the year. Banks obtained most of their funding directly from the ECB, with their demand heavily outweighing their actual needs. In this situation, longer-term funds were drawn from the ECB in greater quantity, with overall demand in two three-year LTROs amounting to more than €1 trillion. LTRO funds accounted for on average 91% of the total amount of liquidity provided to the euro area banking sector. Over the year as a whole the sector reported a large liquidity surplus, boosted also by the ECB's decision (of December 2011) to reduce the minimum reserve ratio from 2% to 1%, with effect as of the first maintenance period of 2012. The banking sector's liquidity surplus peaked in the period from May to July, as euro area banks stepped up their participation in main refinancing operations. Demand in these operations reached a year high of €180 billon. The liquidity surplus corrected slightly only towards the year-end, when euro area periphery countries reduced their recourse to ECB refinancing operations. Following a decision taken in December 2011, the ECB discontinued fine-tuning operations carried out on the last day of each maintenance period. Its aim was to support money market activity in the euro area.

With the ECB maintaining US dollar liquidity swap arrangements with the Federal Reserve System, euro area banks used them to borrow USD 4 billion on average. In December 2012 the ECB announced an extension of these arrangements until February 2014, since they had previously been authorised only until February 2013.

In September 2012 the ECB terminated the Securities Markets Programme (SMP), which had been launched in 2010 as a way of enabling euro area national central banks to purchase government

Chart 9 Eurosystem operations in 2012 (EUR billions)



Source: ECB.
Notes: LTRO – longer-term refinancing operations, CBPP – Covered Bond Purchase Programme, FTO – fine-tuning operations.

bonds of selected countries. By the time the SMP ended, the total acquisition cost of ECB bond purchases through the programme was €208 billion. During the year the ECB conducted operations to absorb the liquidity injected through the SMP and thereby neutralised the programme's potential impact on the monetary stance. In connection with SMP's termination the ECB decided to launch a new programme known as Outright Monetary Transactions (OMTs). In essence, the OMT programme is a means of purchasing unlimited amounts of one-year to three-year government bonds issued by countries participating in an appropriate EFSF/ESM programme, with the ECB fully sterilising the OMTs (just as it absorbed liquidity injected by the SMP). A necessary condition for initiating OMTs is that a euro area country applies for a loan from the EFSF. Since no country had requested such loan by the end of 2012, OMTs were not activated in that year. Nevertheless, the announcement of OMTs in itself helped significantly to reduce risk premia in the bond market markets of periphery countries.

October 2012 saw the scheduled end of the covered bond purchase programme 2 (CBPP2), which had been running since November 2011 with the aim of reviving the covered bond market. The initially targeted total nominal amount of purchases was €40 billion, while the total nominal amount actually purchased by the Eurosystem, on primary and secondary markets, was €16 billion. Národná banka Slovenska did not participate in CBPP2. The ECB's first covered bond purchase programme was carried out in 2009, and the total nominal amount of purchases under that programme was €60 billion.

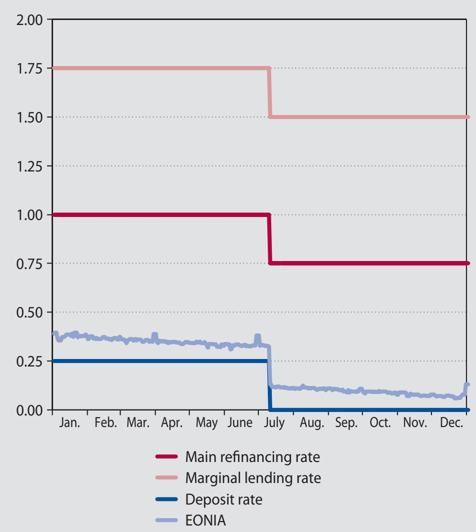
The only change in the ECB's monetary-policy settings in 2012 occurred in July, when the Governing Council responded to escalating difficulties in the euro area market by making monetary policy more accommodative; it cut the main refinancing rate by 25 basis points, from 1% to 0.75%. The width of the standing facilities corridor remained at ± 75 basis points. In reaction to a sizeable liquidity surplus in the euro area banking sector, the EONIA overnight rate fell to a historical low of 0.06% in December 2012 and ended the year at 0.131% (it remained below the main refinancing rate throughout 2012). The 12-month EURIBOR fell in September to below the main refinancing rate and stayed below it until the end of 2012. Following the cut in the ECB's key rates, euro area banks changed the way they deposited funds with the ECB. Before July's decision to reduce the deposit facility rate to zero, the vast majority of banks' deposits with the ECB were made via this overnight facility. Afterwards, however, overnight deposits as a share of banks' total deposits with the ECB fell to an average of 41%, the rest being held in current accounts.

Minimum reserves

Under Eurosystem rules, all credit institutions operating in the euro area are required to hold a minimum amount of reserves with their respective national central bank (NCB).

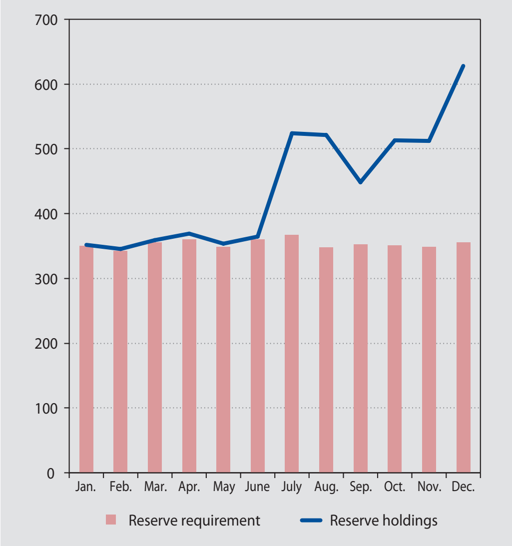
In 2012 a total of 27 credit institutions operating in Slovakia were subject to minimum reserve requirements; they comprised 14 banks established in Slovakia (including three home savings banks) and 13 branches of foreign credit institutions (including credit cooperatives). During the course of 2012 three of the credit institutions subject to the minimum reserve system ceased their operations in Slovakia. Based on a decision of the ECB's Governing Council, the minimum reserve ratio was reduced to 1% of the reserve base (selected types of deposit and debt securities issued).

Chart 10 Key ECB interest rates and the EONIA rate (% p.a.)



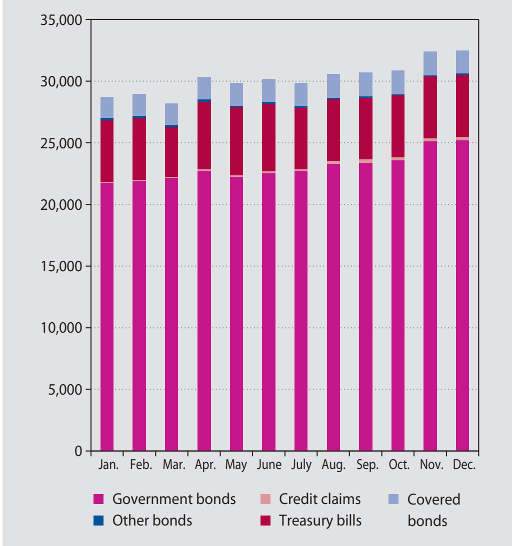
Source: ECB and Bloomberg.

Chart 11 Minimum reserves developments in 2012 (EUR millions)



Source: NBS

Chart 12 Composition of Slovak eligible assets in 2012 (EUR millions)



Source: NBS.

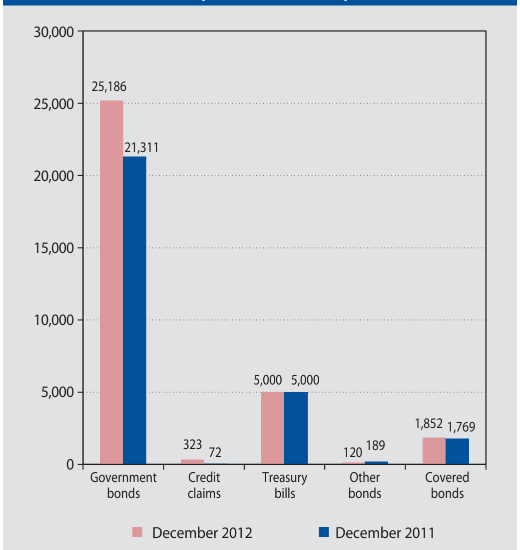
The average amount of required reserves was €353.58 million in 2012, around 49.66% lower than in 2011. This marked change was largely attributable to the reduction in the reserve ratio.

Eligible assets

Collateral eligibility criteria for Eurosystem operations were partially relaxed in 2012 – i.e. the list of eligible assets (EAs) was expanded – thus continuing the trend from the previous year. The easing of the criteria concerned mainly asset-backed securities, but significantly it also saw the criteria extended to include assets denominated in certain non-euro currencies, specifically the US dollar, British pound and Japanese yen (providing all other eligibility criteria are met). In addition, eligibility criteria were set for additional credit claims. Altogether these changes had a significant effect on the overall implementation of the Eurosystem's monetary policy, resulting in increased counterparty participation in the Eurosystem's long-term refinancing operations.

The value of eligible assets issued and held in Slovakia continued to rise in 2012, maintaining the trend observed in 2011. Their total nominal value as at the end of 2012 was higher than at the end of the previous year by approximately 14.61% (or €32,482 million). Bonds and

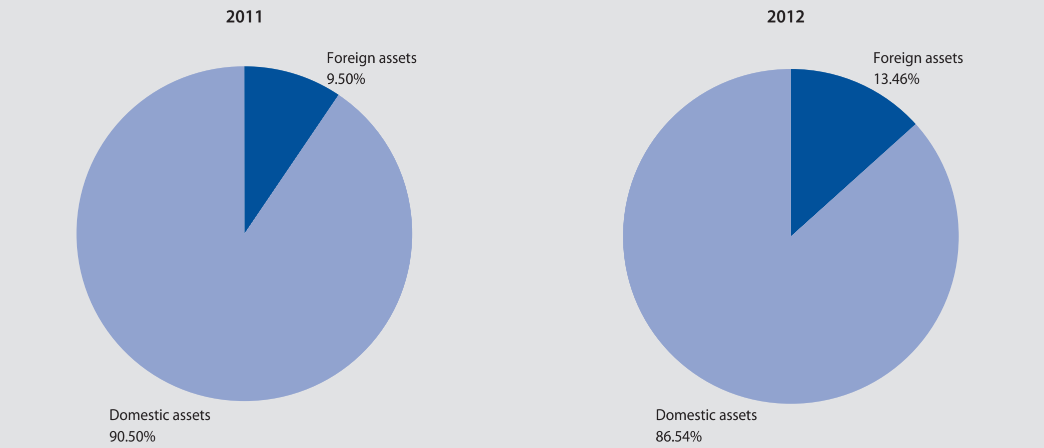
Chart 13 Comparison of Slovak eligible assets' composition in December 2011 and December 2012 (EUR millions)



Source: NBS.

Treasury bills issued by the Slovak government constituted almost 93% of the eligible assets, and covered bonds around 6%. The eligible assets that recorded the largest year-on-year increase were credit claims that could potentially be mobilised, with their share of the total increasing to almost 1%. By contrast, the value of other bonds declined by 40% year-on-year,

Chart 14 Use of domestic and foreign eligible assets (%)

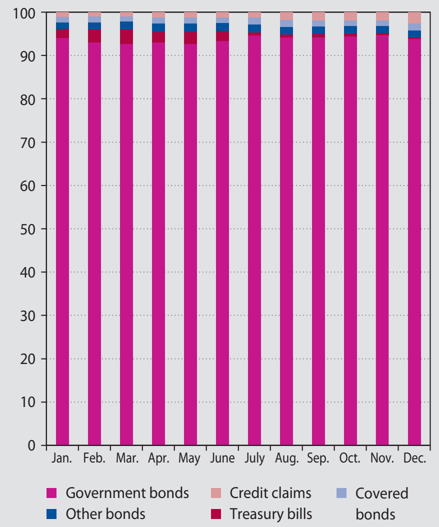


Source: NBS.

leaving them with the smallest share of eligible assets.

With the activation of the Eurosystem's long-term refinancing operations in December 2011 and March 2012, the participation of Slovak counterparties in Eurosystem monetary-policy operations increased. The elevated activity was reflected in the value of the collateral that Slovak banks pledged with Národná banka Slovenska, which was 18% higher at the end of 2012 than at the end of the previous year. At the same time there was a moderate rise in the use of assets issued in other euro area countries, as their share of the total collateral held increased year-on-year by almost four percentage points, to 13.46%; nevertheless, these assets were far outweighed by domestic eligible assets. Debt securities issued by central governments accounted for almost 95% of the assets used by Slovak banks as collateral in Eurosystem credit operations. Collateral in the form of credit claims recorded a relatively marked increase, particularly in the last months of the year. Slovak counterparties used a collateral pool to manage their collateral.

Chart 15 Use of eligible assets in 2012 (%)

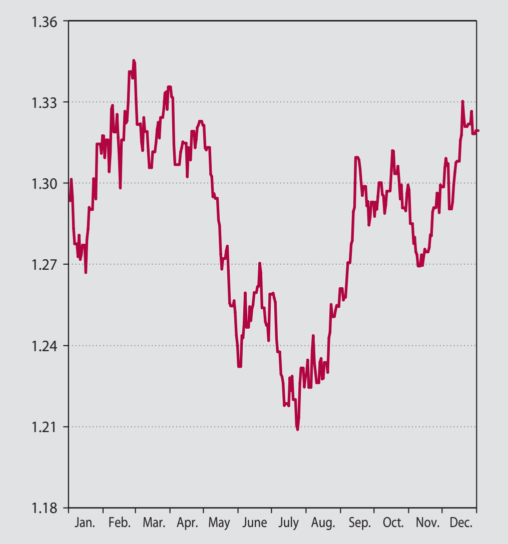


Source: NBS.

2.2 FOREIGN EXCHANGE OPERATIONS

The euro was significantly more volatile in 2012 amid persisting public finance difficulties in several European countries and the United States. The euro appreciated strongly in the first third of 2012: between January and February it strengthened from 1.294 USD/EUR to 1.345 USD/EUR, its highest level of the year. This movement was due mainly to the approval of a second bailout package for Greece as well as to the first country's debt write-off. In the second third of 2012, by contrast, the euro depreciated to 1.209 USD/

Chart 16 USD/EUR exchange rate in 2012



Source: Bloomberg.

Chart 17 Investment assets managed by NBS in 2012 (EUR billions)

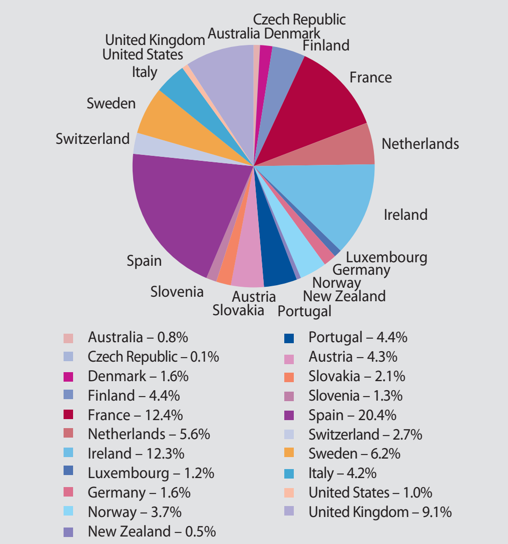
Source: NBS.

EUR, its weakest level of the year, in response to the mounting difficulties of certain euro area periphery countries. The exchange rate then strengthened over the last part of the year, supported by growing optimism about developments in Greece and by the ECB president's announcement of preparedness to activate a new asset-purchase programme. By close of trading in 2012 the currency pair's exchange rate stood at 1.319 USD/EUR, with the euro trading 2% stronger than at the end of 2011.

2.3 MANAGEMENT OF INVESTMENT ASSETS

In managing its investment assets, Národná banka Slovenska aims to ensure that the portfolio contributes positively to the central bank's overall financial result. The total value of its investment assets as at 31 December 2012 was €10 billion (at corresponding exchanges rates and market prices). NBS manages its asset portfolio in accordance with the principles laid down in the NBS Investment Strategy approved in 2008. Thus in the case of euro-denominated assets, which make up 98% of the overall portfolio, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. The return on the euro-denominated portfolio in 2012, after taking into account interest expenses and hedging, stood at 6.52%. The investment portfolio of assets denominated in US dollars, worth €210.7 million, reported a relative return against the respective benchmark of 1.32% in 2012.

Chart 18 Portfolio of investment assets denominated in euro (as at 31 December 2012) – broken down by country of issuer



Source: NBS.

CHAPTER 3

SUPERVISION OF THE FINANCIAL MARKET

3

3 Supervision of the financial market

The Financial Market Supervision Unit of Národná banka Slovenska ('the FMS Unit') performs regulatory, methodological, supervisory, analytical and international activities within the limits of its competence, and conducts first-instance proceedings before NBS[3]. Apart from these tasks, the FMS Unit is responsible for the early identification of risks arising from the activities of the individual entities under supervision and for the identification of risks in the financial market as a whole. Each entity under supervision is assessed in terms of its exposure to risks, with regard to the system in place for the management of these risks.

3.1 The banking, payment services, issuance of electronic money, and foreign exchange sectors

Regulatory activities

In 2012, the FMS Unit's regulatory activities in the area of **banking** comprised cooperation in the drafting of laws (Act No 234/2012 Coll. amending the Banking Act, and Act No 352/2012 Coll. amending the Consumer Credit Act), the drafting of related regulations, and preparations for the implementation of the new banking regulations (Basel III) at the EU level. Most of the new banking regulations were moved from their original versions as directives to regulations, which means a substantial change from the legislative point of view, because a regulation is directly applicable in the legal systems of national regulators.

During 2012, NBS issued four amendments to decrees relating to banking, one recommendation[4] concerning compliance with the 9% capital ratio (core Tier 1) adequacy requirement and prudential banking practices, and one methodological guideline on the prevention of money laundering and terrorist financing, which focuses on the identification of unusual transactions and the elimination of problems arising from practice.

In the area of **payment services and electronic money issuance**, a significant change in 2012 was an amendment to the law on payment services (Act No 352/2012 Coll.), designed to extend the existing legal system to include a new type of payment institution, authorised to provide only payment services specified by law under conditions stipulated by law (payment institutions providing limited payment services). The providers of such payment services will be so-called 'mixed companies', i.e. companies not only providing payment services but also conducting business activities in the area of telecommunications or information technologies. For this segment of the financial market, four methodological guidelines were issued in the year under review.

In respect of the **foreign exchange sector,** the FMS Unit issued a methodological guideline on the submission of foreign exchange licence applications for trading in foreign exchange assets in response to the changes in the Foreign Exchange Act.

First-instance proceedings before NBS

As at 31 December 2012, there were 14 banks and 14 branches of foreign banks operating in the **banking sector** of Slovakia. In the year under review, a total of 150 administrative decisions were issued in regard to the banking sector. Most proceedings (107 decisions) were conducted in connection with the granting of prior approval to replace a member or members of the board of directors or supervisory board, managerial employees or general proxies. The most important decisions were issued in September 2012, i.e. a decision to grant prior approval to J&T BANKA, a.s., Prague, Czech Republic, to acquire a qualifying holding of 36.36% in the share capital and voting rights of Poštová banka, a.s., and a decision to grant prior approval to J&T FINANCE, a.s., Prague, Czech Republic, to acquire a qualifying holding of 51.70% in Poštová banka, a.s.

In 2012, three branches of foreign credit institutions providing services under the 'single passport system'[5] ended their operations in Slovakia, i.e.: UNIBON, a savings and credit cooperative that is an organisational unit of a foreign en-

3 A detailed report on the activities of the Financial Market Supervision Unit for 2012 is available on the website of Národná banka Slovenska at: http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/analyzy-spravy-a-publikacie-v-oblasti-financneho-trhu/sprava-o-cinnosti-dohladu-nad-financnym-trhom.

4 Recommendation No 1/2012 of the Financial Market Supervision Unit of Národná banka Slovenska of 16 January 2012 on support for banking sector stability.

5 This means that they pursued activities on the basis of a licence granted to their parent companies by the competent supervisory authority in the country of their residence.

tity; HSBC Bank plc, a branch of a foreign bank; and Crédit Agricole Corporate and Investment Bank S.A., a branch of a foreign bank. Another foreign bank, i.e. RBS II B.V., Amsterdam, Netherlands, notified NBS of its intention to establish a branch office in Slovakia.

In the period under review, NBS recorded 20 foreign credit institutions that reported their intention to provide cross-border banking services in the territory of Slovakia, without establishing a branch office.

In 2012, two first-instance proceedings to impose a penalty were initiated in the banking sector. One of these proceedings came to an end in the same year with the issuance of a final decision to impose a penalty.

In the area of **payment services and electronic money issuance**, the definition of electronic money was modified in connection with the aforementioned amendment to the law on payment services. On the basis of this change, the mobile operators (Slovak Telekom, a.s., Orange Slovakia, a.s., and Telefónica Slovakia, s.r.o.), which had been authorised to issue electronic money in a limited range, submitted applications to NBS at the end of 2012 for a licence to provide payment services.

In November 2012, a company named 24-pay, s.r.o., Žilina, was granted a licence to provide payment services.

As at 31 December 2012, there were six payment institutions and three electronic money institutions operating in the Slovak financial market.

NBS also recorded 27 foreign payment institutions and 12 foreign electronic money institutions that reported their intention to provide services in Slovakia without establishing a branch office, as well as two agents of foreign payment institutions providing cross-border payment services in Slovakia.

In the **foreign exchange sector**, NBS granted 20 foreign exchange licences for currency exchange activities in 2012. As at 31 December 2012, there were 1,192 entities in Slovakia holding a foreign exchange licence.

In this area, five first-instance proceedings to impose a penalty were initiated in 2012. They all came to an end in the same year with the issuance of a final decision to impose a penalty. Within the scope of penalty proceedings, one proceeding brought in 2011 came to an end in 2012 with the issuance of a final decision to impose a penalty, which came into force in the same year.

As at 31 December 2012, the FMS Unit recorded 194 active creditors (including banks and branches of foreign banks) that were included in the Register of Creditors Providing Consumer Credits.

Supervisory activities

Supervision in the **banking sector** (over banks and branches of foreign banks) in 2012 was exercised on the basis of the annual supervision programme, the evaluated risk profiles of the entities under supervision, and on the applications of banks to use an internal model for the calculation of capital adequacy requirements. The top priorities in 2012 were to monitor the credit and market risks of banks, their capital adequacy and liquidity, and to assess the internal credit and market risk models of banks and the changes made in these models.

Table 8 Number of first-instance proceedings in all sectors in 2012

	Proceedings carried over from 2011 to 2012	Proceedings brought in 2012	Decisions issued in 2012	Decisions that entered into force in 2012
Licensing proceedings	*144*	*632*	*695*	*690*
Penalty proceedings	*137*	*233*	*355*	*307*
First-instance proceedings in total	***281***	***865***	***1 050***	***997***

Source: NBS.

In the period under review, the FMS Unit carried out monthly analyses of the statements and reports supplied regularly by banks and branches of foreign banks, quarterly analyses of the risk profiles of individual banks, and compiled comprehensive annual reports on banks, including a detailed evaluation of their financial indicators. For the purpose of an aggregate assessment of risks and capital in banking groups, the FMS Unit also produced *detailed risk profile reports* for the home supervisors of those banks that are subsidiaries of banks based in another EU country.

In 2012, thirteen thematic and two follow-up inspections were commenced in the banking sector: fourteen inspections were conducted in banks and one in a branch of a foreign bank. Of these inspections, ten were formally completed in 2012. Within the scope of these inspections, the FMS Unit also assessed eight applications from banks for the use or modification of an internal risk measurement model for capital requirement calculation.

In the area of **payment services and electronic money issuance**, the primary focus of on-site inspections in payment institutions was on evaluating the character of activities performed by these entities and their overall risk profile. In 2012, two comprehensive on-site inspections were carried out in payment institutions. The inspections focused mainly on verifying and assessing the system of payment services, selected risks and the risk management system, and compliance with the business conditions and the generally binding legal regulations. One of these inspections was formally completed in the same year.

Off-site supervision comprised the following activities: proposal of a method for data collection in line with the relevant decree, submission of data in the form of reports and statements according to the proposed technical solution, and monthly evaluation and analysis of the data obtained from the individual entities under supervision.

In the **foreign exchange sector**, supervision focused on verifying compliance with the Foreign Exchange Act, mainly in the area of trade in foreign exchange assets in the range of currency exchange activity, consisting in the purchase and/or sale of foreign currency for euros in cash, and compliance with the foreign-exchange reporting requirement by entrepreneurial entities. Twelve on-site inspections were planned for 2012, nine in the area of currency exchange activity and three in the area of compliance with the foreign-exchange reporting requirement.

3.2 THE INSURANCE, PENSION SAVING, FINANCIAL INTERMEDIATION AND FINANCIAL COUNSELLING SECTORS

Regulatory activities

In **the insurance field,** the year of 2012 was marked by several legislative amendments prepared with the involvement of the FMS Unit. The Insurance Act was amended by the coming into force of Act No 332/2011 Coll. On the basis of this amendment, the Legal Aid Centre was added to the entities to which information about activities of regulated entities from this area can be disclosed without violating the obligation of confidentiality.

Following the judgment of the European Court of Justice of 1 March 2011[6], the Ministry of Justice of the SR prepared a bill, which amends the Antidiscrimination Act by introducing the principle of equal treatment regardless of gender for the determination of the amount of insurance premiums, and for the calculation of insurance claims by an insurance company or a branch of a foreign insurance company. Although the initially proposed date of the coming into force of this bill, i.e. 21 December 2012, was changed to 1 March 2013, NBS recommended that the insurance companies apply the rates regardless of gender when calculating the premium rates for contracts concluded after 21 December 2012.

During 2012, the FMS Unit continued cooperation with the Ministry of Finance of the SR in the preparation of a new Insurance Act, which should put into place a new regulatory system for the insurance sector, Solvency II, and issued two recommendations for insurance companies.

In regard to the **retirement pension sector**, NBS focused primarily on drafting secondary legislation to implement the changes that arose from the amendment to the Retirement Pension Saving Act of 2011 (Act No 334/2011 Coll.) and

6 *The judgement of the Court of Justice of the European Union of 1 March 2011 in Case C-236/09 (Test-Achats) ruled that Article 5(2) of Council Directive 2004/113/EC, implementing the principle of equal treatment between men and women in the access to and supply of goods and services, is unlawful and therefore invalid with effect from 21 December 2012.*

from the amendment to the same law of 2012 (Act No 252/2012 Coll.). NBS issued five decrees pertaining to this sector of the financial market. These included a decree on fees and charges for issuers of securities and their payment by pension asset management companies, and a decree on the documentation of compliance with the terms and conditions for the issuance of a licence to establish and operate a pension asset management company. For the entities under supervision from this sector, NBS also issued a methodological guideline concerning the expenses of pension asset management companies on promotion, advertisements, and the acquisition of clients for pension saving schemes.

In regard to the **supplementary pension sector**, NBS responded to the legislative changes concerning the authority to issue legal regulations governing the granting of prior approval and permission to establish and operate a supplementary pension asset management company, and issued two regulations in this connection. On its website, NBS released its position on extraordinary deposits of funds in supplementary pension savings accounts with a view to ensuring a uniform approach to this problem.

In the area of **financial intermediation and financial counselling**, NBS participated in the preparation of an amendment to the law on financial intermediation and financial counselling, which regulates mainly the issue of trustworthiness of persons performing financial intermediary and financial counselling activities, with the aim of eliminating the shortcomings related to the current requirements applying to such persons.

First-instance proceedings before NBS

As at 31 December 2012, there were 18 insurance companies operating in the **insurance sector** of the Slovak financial market, and 18 insurance companies from other Member States notified NBS of their intention to provide insurance or reinsurance services in Slovakia on the basis of the principle of free provision of cross-border services.

Decisions issued in 2012 concerned mainly changes arising from the activities of entities under supervision, e.g. the granting of prior approval for the appointment of a person as member of the board of directors or for a change in a firm's licence to operate. Thirteen persons were recorded in the list of actuaries. One of the most important decisions issued in the area of insurance was the granting of prior approval for the merger of VICTORIA – VOLKSBANKEN Poisťovňa, a.s., and ERGO životná poisťovňa, a.s., in August 2012.

As at the end of 2012, there were six pension asset management companies and four supplementary pension asset management companies operating in the **pension sector** of the Slovak financial market. In this sector, the licence of AEGON, d.d.s., to operate as a supplementary pension asset management company expired on 10 December 2012 in accordance with the Supplementary Pension Savings Act.

In the **financial intermediation and financial counselling sector**, a total of 41,106 entities were recorded in the *Register of Financial Agents and Financial Advisors* kept by NBS, and 268 insurance agents from other Member States reported their intention to intermediate insurance services in Slovakia on the basis of the principle of free provision of cross-border services (as at 31 December 2012).

A total of 224 proceedings concerning the imposition of a sanction were initiated in 2012. The FMS Unit issued 346 decisions in 2012, including 323 decisions to impose a sanction and 23 decisions to bring a proceeding to a close. A total of 298 first-instance decisions entered into force in 2012.

Supervisory activities

Off-site supervision over the **insurance sector** in 2012 was exercised on the basis of the regular statements and reports[7] of the Slovak Bureau of Insurers, and ad-hoc reports delivered via the STATUS DFT information system. Reports on the activities of branches of insurers from other Member States in the territory of Slovakia were also submitted to NBS in 2012.

On-site inspections conducted in 2012 focused mainly on verifying compliance with the relevant provisions of the Insurance Act, related laws, generally binding legal regulations implementing these laws, and the terms and conditions laid down in licences issued under the Insur-

7 *The quarterly financial statements (financial indicators) of insurance companies are analysed in the FINAN system and the results are displayed via its graphical interface.*

ance Act. The plan of on-site inspections for 2012 was based on the strategy of exercising on-site supervision over insurers at roughly three-year intervals. For 2012, nine on-site inspections were planned and commenced: seven thematic and two comprehensive inspections.

In the **retirement pension sector**, the focus of off-site supervision in 2012 was on processing and analysing the regular statements and reports delivered to NBS by six pension asset management companies (managing a total of 24 pension funds) and five banking institutions performing depository activities under the Retirement Pension Savings Act.

Two comprehensive on-site inspections were commenced in pension asset management companies in 2012; one of these inspections was completed. The inspections focused on verifying compliance with the Retirement Pension Savings Act and other generally binding legal regulations, as well as with the terms and conditions laid down in NBS decisions.

In the **supplementary pension sector**, off-site supervision in 2012 focused on checking, analysing, and evaluating the statements and reports of four supplementary pension asset management companies (managing a total of 15 supplementary pension funds) and four banking institutions performing depository activities under the Supplementary Pension Savings Act.

During the second half of 2012, a comprehensive on-site inspection was carried out in one supplementary pension asset management company, with the aim of verifying compliance with the Supplementary Pension Savings Act.

Off-site supervision in the area of **financial intermediation and financial counselling** in 2012 focused on verifying the entities under supervision for compliance with the obligation to harmonise their activities with the temporary provisions of Section 41(9) (a) to (c) of the Financial Intermediation and Financial Counselling Act, concerning professional competence. In order to verify compliance with the requirements regarding professional competence, off-site supervision focused mainly on the conduct of professional examinations. Within the scope of off-site supervision, NBS also verified compliance with the statutory reporting requirement by the entities under supervision, i.e. the reporting of certain information to NBS via the internet or in writing.

On-site inspections in 2012 were conducted to verify compliance with the generally binding legal regulations pertaining to financial intermediation and financial counselling in Slovakia in the following sectors: insurance and reinsurance, the capital market, supplementary pension saving, deposit taking, and lending (provision of loans and consumer credits). In 2012, three comprehensive on-site inspections were carried out in regard to the entities under supervision (independent financial agents). One of these inspections had not been formally completed by 31 December 2012. The on-site inspection of an independent financial agent, which started in 2011, was formally completed at the beginning of 2012. Comprehensive on-site inspections focused mainly on verifying compliance with the law on financial intermediation and financial counselling, and compliance with the terms and conditions laid down in the respective licences.

3.3 THE SECURITIES MARKET SECTOR

Regulatory activities

In 2012, the regulatory and methodological activities of NBS in the area of **supervision of the securities market** consisted mainly in the issuance of further regulations (3 decrees) related to the new recodified Collective Investment Act, which entered into force in 2011. The most significant piece of legislation was a decree specifying the contents of common fund rules and umbrella common fund rules, which are basic documents between a management company and its unit-holders. This decree stipulates detailed rules for the management of common funds with a view to strengthening the protection of unit-holders, while enabling the management company to manage the common funds flexibly and effectively. The FMS Unit also prepared a decree on the documentation of compliance with the terms and conditions for the issue of a licence for the activities of a management company, in connection with the legislative change adopted in this area, i.e. the granting of a licence not only to the founder but to the company as well.

In the area of collective investment and investment services, three methodological guidelines and two recommendations were issued in 2012 in relation to the Markets in Financial Instruments Directive (MiFID). A significant methodological guideline for management companies was a manual containing Key Investor Information Document (KIID), which has definitively replaced the previously used simplified prospectus with effect from 1 July 2012, and a methodological guideline implementing some of the provisions of the new recodified Collective Investment Act. In the area of investment services, an important document was a methodological guideline on the systems and controls in an automated trading environment for trading platforms and investment firms.

During 2012, NBS conducted negotiations with the European Securities and Markets Authority (ESMA) in connection with the system of direct trading in shares on the Bratislava Stock Exchange (BSSE), since ESMA had revised all the European systems using a pre-trade transparency waiver, classified this system as inconsistent with the legislation. These negotiations resulted in a proposal for a modified system, brought into line with the legislation of ESMA, and in a change in the stock exchange rules and a modification to the system of direct trading on the BSSE.

First-instance proceedings before NBS

As at 31 December 2012, fifteen investment firms (non-bank entities) operating in the Slovak financial market and 198 investment firms from other Member States notified NBS of their intention to provide investment services in Slovakia on the basis of the principle of free provision of cross-border services. One of the most important decisions in this area was a change in the authorisation of Across Wealth Management, o.c.p., a.s., CAPITAL MARKETS, o.c.p., a.s., and RM – S Market, o.c.p., a.s., to provide investment services as investment firms, and prior approval granted to BROKERSKY DOM o.c.p., a.s., to return its licence to provide investment services. The company returned its licence on 25 October 2012 and ceased to provide investment services.

Having met the terms and conditions laid down in its licence, PROXENTA Finance o.c.p., a.s., started to provide investment services on 25 April 2012.

Within the scope of licensing activities in regard to the Central Securities Depository (CDCP, a.s.), a total of 22 proceedings before NBS were conducted in 2012.

In regard to the Investment Guarantee Fund, the year of 2012 saw no licensing proceeding before NBS.

During 2012, a total of 39 securities prospectuses were approved under Section 125(2) of the Securities Act and 88 notifications regarding the approval of securities prospectuses, or supplements to securities prospectuses, were received from the supervisory authorities of other EU countries.

In the area of investment certificates, five prospectuses were approved in 2012 under Section 4a(7) of the Securities Act, in addition to one supplement to an investment certificate prospectus.

Within the scope of licensing activities in regard to issuers of shares traded on the regulated BSSE market, eight proceedings were conducted before NBS in 2012 in regard to take-over bid proposals and the granting of approval for the exercise of a squeeze-out right.

In 2012, NBS approved six proposals for compulsory take-over bids.

During 2012, three entities released public offerings on the basis of investment prospectuses approved by NBS.

Within the scope of licensing activities in regard to the BSSE, a.s., twelve proceedings were conducted before NBS in 2012.

In 2012, there were seven asset management companies operating in the collective investment sector of the Slovak financial market. A total of nine licences were granted to these companies to establish or manage mutual funds. At the end of 2012, NBS issued prior approvals for the transfer of the management of all the mutual funds managed by ČSOB Asset Management, a.s., to a foreign management company.

NBS, as the competent body to issue authorisations in relation to rating agencies, issued a decision in 2012 on the basis of which the European Rating Agency, a.s., was registered as a rating agency. This decision entered into force on 27 July 2012.

In regard to the securities market, two proceedings were commenced in 2012. In this connection, the FMS Unit issued two first-instance decisions to impose a sanction; both decisions became effective in the same year.

Supervisory activities

In the **securities market sector**, off-site supervision in 2012 covered fifteen domestic investment firms (non-bank entities) and ten foreign investment firms pursuing activities under the Securities Act. Under Section 135(7) of this Act, NBS is required to assess and subsequently notify the investment firms concerned whether or not they have enough own funds for the coverage of risks.

The aim of off-site supervision is to monitor, analyse, and evaluate the financial situation and risk profile of entities that are subject to supervision, on the basis of their statements and reports delivered at regular intervals, information obtained during on-site inspections, and publicly available information.

On-site inspections were conducted on the basis of the plan of inspections, which had been made with regard to the inspections carried out in the previous years and the need to protect the property of clients. In 2012, five comprehensive and ten thematic on-site inspections were conducted in regard to investment firms (non-bank entities). The focus of comprehensive inspections was on compliance with the relevant provisions of the Securities Act. Thematic inspections centred on the measures adopted by the companies to ensure the protection of clients' funds and financial instruments.

In the **collective investment sector**, off-site supervision in 2012 focused on checking, analysing, and evaluating the reports and statements of seven domestic asset management companies (managing a total of 81 mutual funds) and five banking institutions performing depository activity under the Collective Investment Act.

In this sector, two comprehensive and three thematic on-site inspections were carried out in 2012, in line with the plan of inspections. The comprehensive inspections covered the activities of asset management companies and compliance with the Collective Investment Act. The thematic inspections focused on verifying the measures adopted to ensure the protection of clients' funds and financial instruments.

In 2012, NBS also exercised off-site supervision over compliance with the disclosure requirement by issuers of securities admitted to trading on the regulated market and over compliance with the disclosure requirement by entities making public offerings. Companies making public offerings fully met the disclosure requirement in 2012, only one company failed to submit annual financial statements for 2011, including an auditor's report.

As at 31 December 2012, a total of 81 issuers of securities admitted to trading on the regulated market were subject to the disclosure requirement under the Stock Exchange Act. In 2012, NBS verified annual reports, semi-annual reports, preliminary statements, and other documents presented in line with the disclosure requirement.

3.4 MACRO-PRUDENTIAL POLICY IMPLEMENTATION

In 2012, one of the main goals of the FMS Unit was to continue working on the creation and implementation of a macro-prudential policy framework. In connection with this goal, special attention was paid to a detailed quantitative analysis[8] of the current developments in the banking sector in relation to the macroeconomic situation, as well as to the instruments of macro-prudential policy from the theoretical, analytical and regulatory points of view.

Regarding the instruments of macro-prudential policy, analytical activities focused primarily on the countercyclical capital buffer and on the

8 *Analyses of the Slovak financial sector are available on the NBS website http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/analysis-of-the-slovak-financial-sector*

proposal to apply the regulation of systemically important financial institutions to the Slovak banking sector. Both instruments are classified in the prepared draft of the CRD IV directive as key instruments for macro-prudential policy implementation. The impact analysis and quantification also covered the new proposals concerning the financial sector's regulation, mainly the draft of the CRD IV directive / CRR regulation, the proposed single supervisory mechanism, and the FMS Unit's recommendation concerning support for banking system stability, which was issued in January 2012. More detailed analyses were made, inter alia, in regard to the impact of changes in the quantitative requirements on bank liquidity.

The FMS Unit also examined the impact of bank levy and financial transaction tax on the Slovak banking sector and quantified the possible impacts of certain risks, e.g. real estate price decline or increased withdrawal of customers´ deposits from banks.

3.5 FINANCIAL CONSUMER PROTECTION

Submissions from consumers of financial services from various sectors of the financial market are dealt with by the Financial Consumer Protection Section, which is part of the FMS Unit. Most submissions in 2012 were complaints about the practices of financial service providers in the areas of banking, insurance, securities market, pension savings, financial intermediation and financial advisory. In many cases, 'agreed remedies' were arranged for unsatisfied clients of financial market entities that are subject to supervision, and thus they did not have to seek relief in the courts.

In 2012, the number of submissions increased by almost 32% year-on-year, to a total of 1,023. In the area of insurance, the complaints concerned mostly compulsory third-party motor insurance claims for compensation for damaged windscreens and arbitration court decisions. The most frequent subject matter of complaints in the area of banking was mortgage loans, specifically the amount of bank charges, early mortgage loan repayment charges, and interest rate changes. In the securities market sector, the vast majority of complaints concerned fees charged for the maintenance of owners' securities accounts by the Central Securities Depository (CDCP, a.s.). In the area of supplementary pension saving, the most frequent subject matter of complaints was claim to, and the amount of, termination settlement. The range, quality, and method of information supply were the most frequent subject matter in the area of financial intermediation.

Names of the acts and directives	
Antidiscrimination Act	Act No 365/2004 Coll. on equal treatment in certain areas and protection against discrimination, amending and supplementing certain other laws
Foreign Exchange Act	Act of the National Council of the Slovak Republic No. 202/1995 Coll., the foreign exchange act and the act amending and supplementing Act of the Slovak National Council No. 372/1990 Coll. on infringements, as amended
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
CRR regulation	Proposal for a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms
AIFMD Directive	Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers
CRD IV directive	Proposal for a directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate

IORP directive	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision
SOLVENCY II directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)
Banking Act	Act No 483/2001 Coll. on banks and on amendments and supplements to certain laws
Stock Exchange Act	Act No. 429/2002 Coll. on the stock exchange, as amended
Securities Act	Act No 566/2001 Coll. on securities and investment services (The Securities Act) and on amendments and supplements to certain laws
Supplementary Pension Savings Act	Act No 650/2004 Coll. on supplementary pension saving and on amendments and supplements to certain laws
Financial Intermediation and Financial Counselling Act	Act No 186/2009 Coll. on financial intermediation and financial counselling and on amendments and supplements to certain laws
Collective Investment Act	Act No 203/2011 Coll. on collective investment
Payment Services Act	Act No 492/2009 Coll. on payment services and on amendments and supplements to certain laws
Insurance Act	Act No 8/2008 Coll. on insurance and on amendments and supplements to certain laws
Consumer Credit Act	Act No. 129/2010 Coll. on consumer credits and other credits and loans for consumers and on amendments and supplements to certain laws
Retirement Pension Savings Act	Act No 43/2004 Coll. on retirement pension saving and on amendments and supplements to certain laws

CHAPTER 4

ISSUING ACTIVITY AND CURRENCY CIRCULATION

4

4 Issuing activity and currency circulation

4.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance („CNI“)[9] of euro cash in Slovakia had a total value of almost €8.3 billion as at 31 December 2012 (Table 9). The CNI's annual growth was 12.7% in 2012, far lower than in previous years.[10]

The value of the item *currency in circulation,* corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key) was €8.3 billion as at 31 December 2012.[11]

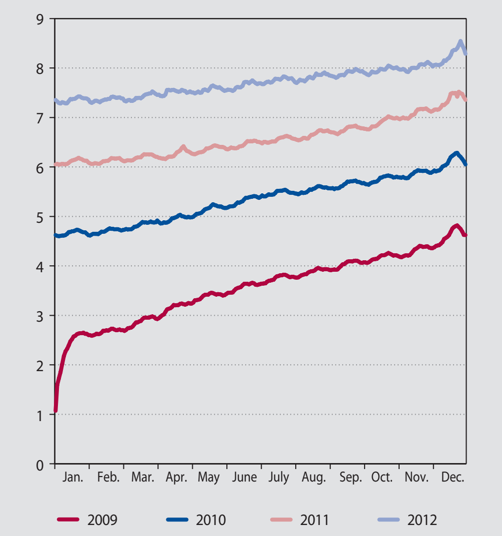
In 2012, the daily CNI followed a similar pattern as in previous years, with an increase in value over each year between €1 billion and €1.5 billion (Chart 19). The CNI usually peaks during the pre-Christmas period, and in 2012 it reached a high of €8.5 billion on 21 December. Comparing that figure with the highest value of the cumulative net issuance of the former koruna currency (SKK 162 billion, recorded on 21 December 2007), it was almost 60% higher after exchange rate conversion.

Euro banknotes accounted for almost the entire value of the CNI (98.4%) but only for 21% of the CNI in terms of volume, with euro coins (including euro collector coins) making up the remaining 79%.

The cumulative net issuance as at 31 December 2012 comprised almost 125 million euro banknotes, more than 470 million euro circulation coins, and approximately 248,000 euro collector coins (Table 9). The €50 banknote accounted for the largest share of the total number of banknotes included in the CNI, almost 30%. The most-issued euro coins were the lowest-value 1 and 2 cent coins, which made up more than half (54%) of all the coins included in the CNI. In value terms, however, their share was a mere 3%.

Looking at the breakdown of the cumulative net issuance, NBS is not so far a „negative issuer“[12] of any euro banknotes or coins; however, the net monthly issuance[13] of €200 banknotes has been negative since mid-2010.

Chart 19 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

The average value of the currency mark,[14] calculated on the basis of the net-issued euro cash (including collector coins), stood at €14. For euro banknotes, the average value of the currency mark was €67, and for euro coins it was €0.27.

As at 31 December 2012 the number and value of euro banknotes per head of population in Slovakia[15] were, respectively, 21 and around €1,405, and the corresponding figures for euro coins were 81 and €21. The overall value of the cumulative net issuance per capita was €1,427.

The €50 banknote was the most numerous denomination, with almost six in circulation per capita. As for euro coins, the most numerous denominations were the lowest-value 1 and 2 cent coins, with 21 and 22 per capita respectively.

Slovak koruna banknotes and coins

As regards Slovakia's former koruna currency, the number of koruna banknotes unreturned as at 31 December 2012 was 19.4 million (including 10.2 million 20 koruna banknotes) and the number of unreturned coins was approximately 392.3 million (including almost 170 million 50 halier coins and more than 102.5 million 1 koruna coins).

9 *Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself issues into and withdraws from circulation. The cumulative net issuance as at 31 December 2012 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009 and 31 December 2012.*

10 *The CNI increased by 21.6% in 2011 and by 30.8% in 2010.*

11 *The value of currency in circulation in the euro area as a whole as at 31 December 2012 was €912.6 billion, and the share of that currency issued in Slovakia was 0.9115%, or €8.3 billion.*

12 *Thus for each denomination of euro banknote and coin, the number that NBS has put into circulation is higher than the number it has withdrawn from circulation.*

13 *The net monthly issuance for a given month is the number of banknotes put into circulation minus the number of banknotes withdrawn from circulation in that month.*

14 *All the average values are calculated on the basis of the average issuance in 2012.*

15 *The population of Slovakia as at 31 December 2012 was 5,410,836, according to the Statistical Office of the Slovak Republic.*

Table 9 Composition of the cumulative net issuance of euro banknotes and coins

	Cumulative net issuance				Share in %	
	CNI as at 31 December 2012		Difference versus 31 December 2011		Share as at 31 December 2012	
	number	value (€)	number	value (€)	number	value (€)
€500	6,155,937	3,077,968,500.00	672,325	336,162,500.00	1.03	37.14
€200	664,154	132,830,800.00	-165,156,	-33,031,200.00	0.11	1.60
€100	22,770,540	2,277,054,000.00	2,413,699	241,369,900.00	3.83	27.47
€50	37,139,035	1,856,951,750.00	5,124,456	256,222,800.00	6.24	22.40
€20	28,159,185	563,183,700.00	3,748,203	74,964,060.00	4.73	6.80
€10	20,984,607	209,846,070.00	4,262,076	42,620,760.00	3.53	2.53
€5	8,999,373	44,996,865.00	759,556	3,797,780.00	1.51	0.54
Total banknotes	**124,872,831**	**8,162,831,685.00**	**16,815,159**	**922,106,600.00**	**20.98**	**98.48**
€2	34,517,147	69,034,294.00	3,690,440	7,380,880.00	5.80	0.83
€1	21,633,769	21,633,769.00	160,716	160,716.00	3.63	0.26
50 cent	25,606,507	12,803,253.50	828,027	414,013.50	4.30	0.15
20 cent	33,836,849	6,767,369.80	712,883	142,576.60	5.68	0.08
10 cent	44,673,068	4,467,306.80	3,629,619	362,961.90	7.51	0.06
5 cent	55,923,628	2,796,181.40	5,658,896	282,944.80	9.40	0.03
2 cent	119,410,845	2,388,216.90	12,159,856	243,197.12	20.06	0.03
1 cent	134,473,288	1,344,732.88	23,369,179	233,691.79	22.60	0.02
Total coins	**470,075,101**	**121,235,124.28**	**50,209,616**	**9,220,981.71**	**78.98**	**1.46**
Collector coins	**248,452**	**4,752,290.00**	**61,416**	**1,161,830.00**	**0.04**	**0.06**
Total coins	**595,196,384**	**8,288,819,099.28**	**67,086,191**	**932,489,411.71**	**100.00**	**100.00**

Source: NBS.

The total nominal value of unreturned koruna banknotes and coins was around SKK 4 billion (including SKK 700,000 worth of commemorative coins), or as low as less than 3% of the nominal value of the overall value of the koruna cash issued.

In per capita terms, the number and value of unreturned koruna banknotes were around 3 and SKK 461 respectively, and the corresponding figures for koruna circulation coins were 72 and SKK 133. The overall nominal value per capita of unreturned koruna cash (including commemorative coins) was SKK 723.

The most numerous of the unreturned koruna banknotes and coins as at 31 December 2012 were the 20 koruna banknote, at 2 per capita, and the 50 halier coin, at 31 per capita.

4.2 PRODUCTION OF EURO BANKNOTES AND COINS

In 2012 Národná banka Slovenska procured for the Eurosystem the production of 83.78 million €20 banknotes. The banknotes were produced by the German company Bundesdruckerei GmbH. Apart from the production of the first-series banknotes, NBS also took part in the procurement of the pilot production of the second series of euro banknotes, the aim of which was to check the feasibility of second-series euro banknote issuance against quality and production standards.

Besides euro banknotes, NBS procured the production of 10.5 million 1 cent euro coins. At the beginning of January 2012 NBS issued one million €2 commemorative coins to mark ten years of euro banknotes and coins. These commemorative coins

Table 10 Collector coins issued by Národná banka Slovenska in 2012

Denomination	Theme	Issuing volume		NBS notification of coin issuance
		Total	of which proof	
€20[1)]	Historical Preservation Area of Trenčín	13,400	7,500	465/2011 Coll.
€10[1)]	Master Pavol of Levoča	19,270	11,870	121/2012 Coll.
€10[1)]	250th anniversary of the birth of Chatam Sofer	13,700	7,900	122/2012 Coll.
€10[1)]	250th anniversary of the birth of Anton Bernolák	12,150	6,950	194/2012 Coll.
€100[2)]	Bratislava coronations – 300th anniversary of the coronation of Charles III	5,200	5,200	310/2012 Coll.

Source: NBS.
1) Silver collector coin.
2) Gold collector coin.

were produced by the state-owned mint, Kremnica Mincovňa, in 2011. Kremnica Mincovňa mints all Slovak euro coins, and its output in 2012 included 45,000 coins of each denomination that were used in annual collector sets of Slovak euro coins.

In addition to ordinary and commemorative euro coins, Národná banka Slovenska issued four silver collector coins and one gold collector coin in 2012 (Table 10) in accordance with its issue plan for commemorative and collector euro coins. Further information about the themes of these collector coins can be found on the NBS website.[16] NBS arranges the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

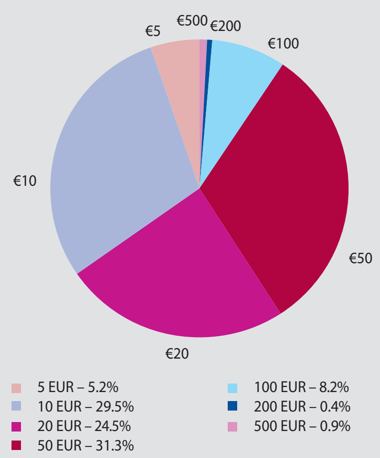
4.3 PROCESSING OF EURO BANKNOTES AND COINS

As of 31 December 2011 four of NBS's nine sub-branches (where currency is held and put into circulation) were closed down as part of a restructuring of the central bank's currency circulation management; the four in question reported the lowest recourse by commercial banks to cash. In order to maintain cash processing capacity, banknote and coin processing machines were transferred from these sub-branches to the remaininrg six cash storage centres.

In 2012 Národná banka Slovenska put into circulation more than 348 million euro banknotes, while more than 331 million euro banknotes were received from and returned to circulation, mainly from commercial banks and partly from the public.

During the year NBS processed over 335 million euro banknotes in accordance with the common procedures laid down by the ECB for all national central banks in the euro area. The total number of euro banknotes returned to NBS was approximately three times higher than the average number of banknotes issued by NBS. This means that each euro banknote issued by NBS was returned to the central bank once every four months on average. By checking returned banknotes for authenticity and circulation fitness, NBS maintains public confidence in the currency. Public satisfaction with the quality of euro banknotes circulating in Slovakia is confirmed by opinion polls carried out each year in euro area

Chart 20 Euro banknotes processed in 2012 broken down by denomination



Source: NBS.

16 www.nbs.sk/en/banknotes-and-coins/euro-coins/collector-coins

countries. The €50 banknote was the most frequently processed in 2012 (Chart 20), being the most numerous banknote in circulation and the most frequently issued via cash dispensers.

During the processing of euro banknotes in 2012, almost 48 million banknotes were sorted as unfit. The unfit rate was 14%, which is an average level in comparison with other euro area countries.

In 2012 NBS put more than 316 million euro coins into circulation, while more than 266 million euro coins were returned to it. The coins were processed in automated coin processing machines, which checked the coins for both authenticity and fitness for circulation. Since coins have a longer lifespan than banknotes, only around 175,000 coins were sorted as unfit. The unfit rate for euro coins did not vary significantly between denominations. As part of the processing of euro coins, NBS twice a year sorts the returned coins by their national side. On that basis, it found that Slovak euro coins accounted for the largest share (60%) of euro coins in circulation in Slovakia in 2012, while German and Italian national sides had the next highest shares, 11% and 10% respectively.

Not only does NBS process and recirculate euro banknotes and coins, so too do banks and other cash handlers which have received approval from NBS to process euro cash. The activities of these cash handlers are subject to regular supervision by NBS.

4.4 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 4,538 counterfeit banknotes and coins were recovered from circulation in Slovakia in 2012, 43% fewer than in 2011. The recovered counterfeits included 1,531 banknotes and 3,007 coins, the vast majority (99%) of which were euro counterfeits. More than 95% of the total counterfeits were recovered from circulation by banks, branches of foreign banks, non-bank entities and security services; the rest were recovered by the police before they entered circulation. Looking at the recovery of counterfeits by region, Bratislava Region accounted for almost half of the total, while Trenčín Region had the lowest share (1.4%).

Almost half of the counterfeits was recovered by commercial banks (48.4%), followed by NBS (25%), security services (15%), the police (10%), and the rest was recovered by non-bank entities.

A moderate improvement in the quality of counterfeits was observed in 2012, especially in counterfeits of euro banknotes and coins. Neither the number of counterfeits recovered, nor the technical level of their production posed a serious risk to the integrity and smooth operation of cash circulation in Slovakia.

Euro counterfeits

A total of 4,451 counterfeit euro banknotes and coin, with a total face value of €160,065, were recovered in Slovakia in 2012.

The number of counterfeit euro banknotes recovered was 1,444, with counterfeit €20 banknotes accounting for 27% of that total, €50 banknotes 25%, and €100 banknotes 20%. Banks and foreign bank branches recovered more than half of the counterfeit euro banknotes. In addition to the counterfeit banknotes, 18 altered banknotes comprising different parts of banknotes of the same denomination were recovered.

Table 11 Number of counterfeit banknotes and coins recovered in Slovakia

	EUR	SKK	Other	Total
2008	275	502	187	964
2009	2,903	297	267	3,467
2010	2,837	14	83	2,934
2011	7,888	15	64	7,967
2012	4,451	22	65	4,538

Source: NBS.

Table 12 Number of euro counterfeits recovered in Slovakia

	Denominations										
	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	Total
2008	0	2	15	0	4	9	65	70	106	4	275
2009	37	109	664	29	37	274	827	775	144	7	2,903
2010	208	224	977	35	38	313	503	392	91	56	2,837
2011	348	239	1,041	29	31	425	495	4,103	91	1,086	7,888
2012	476	245	2,286	16	28	400	359	289	254	98	4,451

Source: NBS.

The number of counterfeit euro coins recovered in 2012 was 3,007, 84.7% higher than in 2011, with counterfeit €2 coins accounting for the largest share (76%). Since most counterfeit coins are barely distinguishable from genuine coins in terms of their magnetic properties, conductivity and design, it is relatively difficult for members of the public to detect them (especially if they do not look closely at their coins). Národná banka Slovenska recovered more than one-third of the counterfeit euro coins.

The counterfeit euro banknotes and coins recovered in Slovakia represented only 0.6% of the total number of such counterfeits recovered in the euro area as a whole in 2012. This very low share means that the probability of a natural or legal person receiving a counterfeit euro banknote or coin in Slovakia is very small.

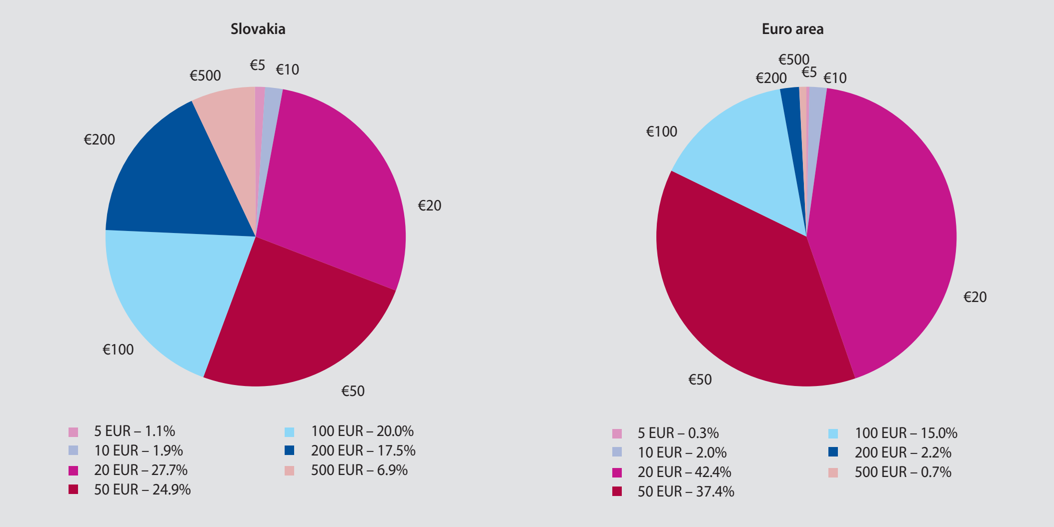
Slovak koruna counterfeits

Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Only 22 Slovak koruna counterfeits were recovered in 2012. Although the period in which Slovak koruna banknotes may be exchanged for euro is indefinite, further incidence of koruna counterfeits is expected to be only sporadic.

Counterfeits of other foreign currency

The number of US dollar counterfeits recovered in 2012 was lower than in the previous year, at 33. As in 2011 the $100 dollar banknote was the most counterfeited denomination, accounting for 85% of the recovered counterfeits. The number of counterfeits of other foreign currencies increased slightly, to 32, including 27 British pound counterfeits.

Chart 21 Counterfeit euro banknotes recovered in 2012 in Slovakia and in the euro area as a whole



Source: NBS.

CHAPTER 5

PAYMENT SERVICES AND PAYMENT SYSTEMS

5

5 Payment services and payment systems

5.1 PAYMENT SERVICES

Payment services and payment systems in Slovakia are governed mainly by Act No 492/2009 on payment services and on amendments to certain laws (hereinafter referred to as "the Payment Services Act"), which transposes into Slovak law Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market.[17]

Slovak law in the area of payment services also includes Decree No 8/2009 of Národná banka Slovenska (laying down the structure of domestic bank account number and international bank account number and details of the issuance of a converter for identifier codes) and the following Regulations of the European Parliament and of the Council:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds; and
- Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

In 2012 Národná banka Slovenska approved the proposal of the Slovak Banking Association (SBA) that the SBA should not pay any contribution for that year to the operation of the SBA's Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), having regard to the Court's financial results and the existence of sufficient funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services

5.2 PAYMENT SYSTEMS IN THE SLOVAK REPUBLIC

5.2.1 TARGET2 and TARGET2-SK

Národná banka Slovenska has been operating TARGET2-SK, a TARGET2 component system, since Slovakia entered the euro area on 1 January 2009. TARGET2-SK functioned reliably in its fourth year, with neither NBS nor any of the system's participants recording any incidents such that would jeopardise the smooth processing of payments or disrupt the system's operation. Thus, from the point of view of payment system performance, 2012 can be considered a successful year.

Besides overseeing the system's daily operation, providing its participants with advice and support, and performing regular testing of recovery procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of the TARGET2 system. New software releases bring improved functionalities and modifications to the SSP (all of which are approved by the Eurosystem in response to the requirements of the system's users), and they also rectify any deficiencies identified in the previous version.

NBS organised regular working meetings with representatives of the TARGET2-SK system's participants. These meetings are opportunities to discuss proposed and planned changes to the TARGET2 system, to coordinate testing of new SSP software releases with participants, to evaluate the day-to-day operation of the system, and for NBS to inform the system's participants about any other relevant information.

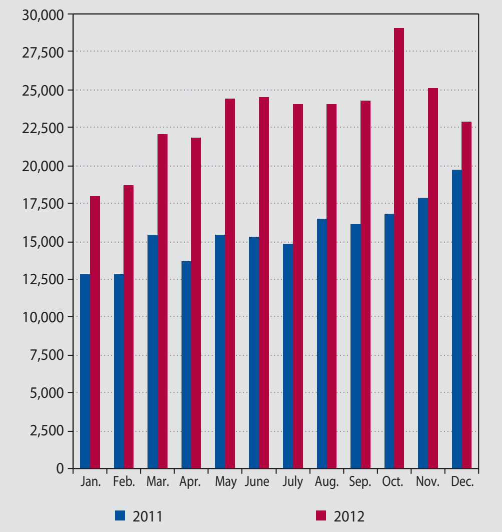
On 18 December 2012 Národná banka Slovenska issued two Decisions concerning TARGET2-SK: Decision No 11/2012 amending Decision No 3/2010 on conditions for participation in TARGET2-SK, and Decision 12/2012 amending Decision No 4/2010 on ancillary system settlement procedures in TARGET2-SK. By these decisions, the implementation in Slovakia of ECB Guideline ECB/2012/27 was completed.

5.2.2 Payments executed via TARGET2-SK

By the end of 2012 TARGET2-SK had 33 participants, comprising 30 direct participants (including Národná banka Slovenska) and three

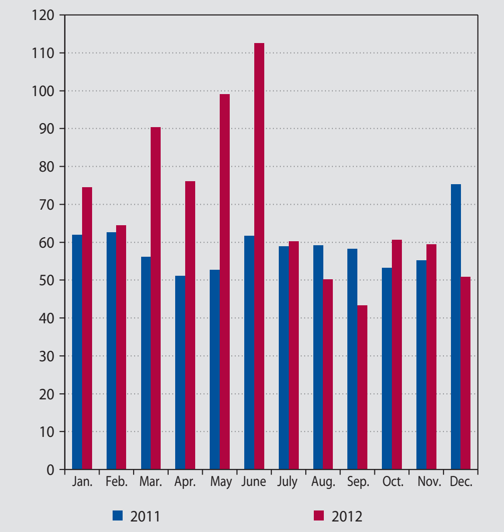
17 Act No 429/2009 Coll. repealed Act No 510/2002 Coll. on the payment system as amended.

Chart 22 Number of transactions processed in TARGET2-SK



Source: NBS.

Chart 23 Value of transactions processed in TARGET2-SK (EUR billions)



Source: NBS.

ancillary systems: the SIPS system; the Central Securities Depository of the Slovak Republic; and First Data Slovakia, a private company. The number of direct participants decreased by two in 2012.

In 2012 the TARGET2-SK system processed almost 279,000 transactions with a total value of over €840 billion. In comparison with 2011, the TARGET2-SK traffic increased in volume by 48.74% (or 91,000 transactions) and in value by 18.85% (€133.3 billion). Charts 22 and 23 show, respectively, the number and value of transactions processed in TARGET2-SK in each month of 2012 and 2011.

TARGET2-SK had 256 operating days in 2012, and its average daily traffic by volume and value was 1,089 transactions and almost €3,287 million.

Looking at the payment traffic in 2012 broken down into retail and interbank transactions, customer payments have the higher share by number (73:27) while interbank payments have the overwhelmingly larger share by value (4:96).

At present 24 central banks of EU Member States are connected to TARGET2. Looking at the number of payments made by TARGET2-SK participants in 2012, 24% of the transactions were domestic, 69% were cross-border within the EU and almost 7% were cross-border outside the EU. In terms of value, however, domestic payments account for the highest share (62:38). Chart 24 shows the composition of payments made by TARGET2–SK participants.

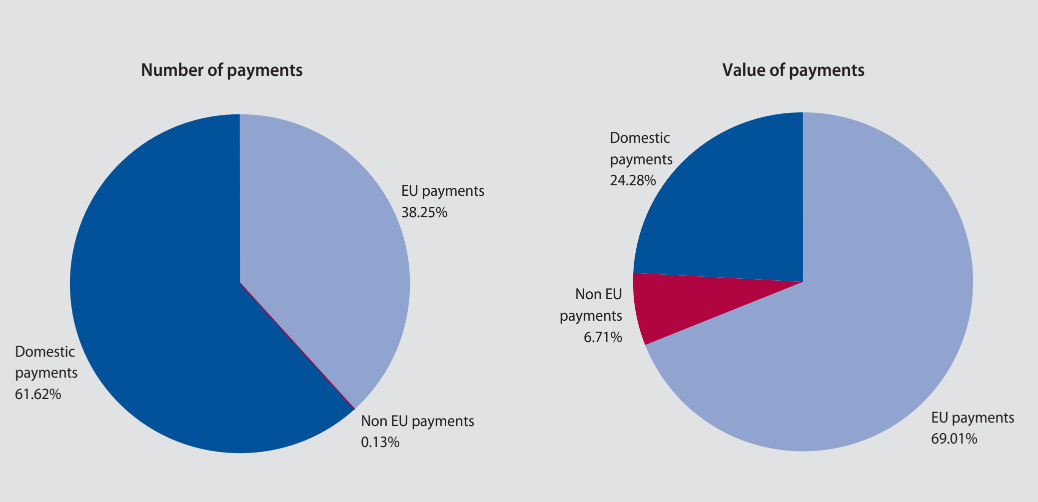
5.2.3 The SIPS payment system

In 2012 the Slovak Interbank Payment System (SIPS) ensured the continual processing and clearing of retail euro payments. Transactions were processed in clearing cycles in SIPS that is an ancillary system of TARGET2-SK. The resulting cash positions were settled in TARGET2-SK.

As part of the implementation of SEPA payment instruments in Slovakia, the SIPS's functionality was upgraded as from 1 December 2012 to allow processing of SEPA credit transfers in Slovakia. The upgrading was carried out in accordance with a strategy approved by the NBS Bank Board and set out in the SEPA Implementation Plan.

SIPS will undergo further upgrades so as to make it fully compatible with the Single European Payment Area (SEPA). In accordance with requirements for SEPA implementation in Slovakia, as published in the SEPA Implementation Plan, SIPS will in future process also domestic SEPA direct debits as well as cross-border SEPA credit transfers and SEPA direct debits.

Chart 24 Composition of payments made by TARGET2-SK participants in 2012



Source: NBS.

5.2.4 Payments executed via SIPS

The number of participants in the SIPS retail payment system declined from 32 at the beginning of 2012 to 29 by the end of the year.

In 2012 SIPS processed about 180,360,000 transactions, which in line with the rising trend of recent years was 5.43% more than in 2011. However, the overall value of the processed transactions increased year-on-year by less than one percent, to €178,387 million (compared with a rise of 7% in 2011).

Charts 25 and 26 show the number and value of transactions processed in SIPS in each month of 2011 and 2012.

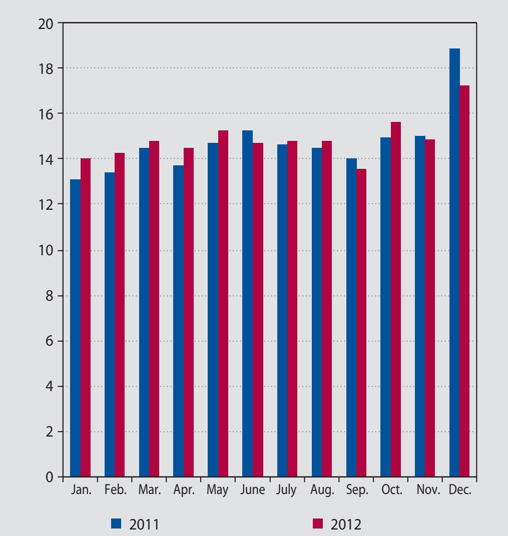
5.2.5 Payment cards

The number of bank payment cards in circulation decreased by almost 16% in 2012, to

Chart 25 Number of transactions executed in SIPS in 2011 and 2012 (millions)

Source: NBS.

Chart 26 Value of transactions executed in SIPS in 2011 and 2012 (EUR billions)



Source: NBS.

4.59 million (from 5.35 in 2011), with debit cards accounting for 3.93 million of the total, credit cards for 0.6 million, and prepaid cards for almost 52,000.

By the end of 2012, in comparison with end-2011, the number of ATMs (2,509) had increased by 4.2% and point-of-sale (POS) terminals (37,485) by 1.3%.

5.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

The Single European Payments Area (SEPA) – the ECB and European Payments Council

The Single Euro Payments Area (SEPA) is an initiative aimed at achieving a fully integrated European market for retail payment services in euro, with no distinction between cross-border and national payments.

The legislative framework for SEPA is Regulation (EU) No 260/2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009. The purpose of the Regulation, which entered into force on 31 March 2012, is to lay down rules covering the execution of all credit transfer and direct debit transactions denominated in euro within the European Union, and rules on the use of common standards and technical requirements in payment services, such as the international bank account number (IBAN), the business identifier code (BIC or SWIFT code), and the financial services messaging standard 'ISO 20022 XML'. Under the Regulation, 1 February 2014 is set as the end-date for the implementation of SEPA payment schemes for credit transfers and direct debits, which will replace the national payment instruments currently in use.

In 2012 special attention was paid to the migration to the new SEPA instruments. According to the statistical data published on a regular basis by the ECB and European Payments Council, the share of SEPA credit transfers and SEPA direct debits in the respective total amounts in the euro area reached 30.6% and 2.1%, respectively, in November 2012.

In November 2012 the European Payments Council approved new releases of its SEPA rulebooks, namely the SEPA Credit Transfer Scheme Rulebook (version 6.1), the SEPA Core Direct Debit Scheme Rulebook (version 6.1), and the SEPA Business-to-Business (B2B) Direct Debit Scheme Rulebook (version 4.1). These new rulebooks entered into force on 17 November 2012. The SEPA Cards Framework was last updated in December 2009 with the release of version 2.1. As for the SEPA Cards Standardisation Volume – Book of Requirements, a new version (6.0) was published by the EPC in January 2012.

SEPA payment instruments are being implemented in Slovakia in accordance with the SEPA Implementation Plan for Slovakia, the current version 4.0 of which was approved first by the NBS Bank Board and then, on 23 November 2012, by the national SEPA Committee. The aim of the implementation plan is, in line with EU Regulation No 260/2012, to define the different stages of the migration to SEPA, which include setting the schedule and tasks that must be met to ensure successful implementation of SEPA in Slovakia.

Assessment of securities settlement systems (SSS) and their links

At approximately two-year intervals the Eurosystem conducts a comprehensive assessment of all securities settlement systems (SSSs) and links currently used for the collateralisation of Eurosystem credit operations. The second such assessment was launched in 2011 and included the Central Securities Depository of the Slovak Republic. The assessment was made on the basis of the "Standards for the use of EU securities settlement systems in ESCB credit operations". In this process Národná banka Slovenska acted both as coordinator with CDCP and as first assessor. The second assessor was Banca d´Italia. NBS also acted as second assessor for the Maltese SSS MaltaClear, as part of the dual control mechanism. In 2012 the final report was completed and recommendations were communicated.

The Eurosystem – TARGET2-Securities

The development phase of the Eurosystem's TARGET2-Securities (T2S) project, a single platform for securities settlement, continued in 2012. The ECB's Governing Council took several decisions related to T2S preparations in accordance with the T2S Programme Plan. A new T2S governance structure was established in 2012 following the signing of the T2S Framework Agreement and the signing of the Currency Participation Agreement (for central banks outside the euro area). The Eurosystem entered the Framework Agreement in 2012 with 22 central securities depositories (CSDs) including 5 non-euro area CSDs. As for the T2S Currency Participation Agreement with non-euro area central banks, only the Danish central bank signed it in 2012, undertaking to make the Danish krone available in T2S from the beginning of 2018. Consequently, not only euro transactions will be settled in T2S, but, in the future, also transactions denominated in Danish krone.

Meetings of Slovakia's T2S National User Group (NUG-SK) were held at the central bank during 2012. Information about the agendas of these meetings and the issues addressed is available at the NBS website.[18] NUG-SK members were also involved in providing feedback within the Eurosystem's T2S consultation process, which aims to obtain the views of national markets on T2S issues as well as information on national practices in post-trading, so as to maximise harmonisation in T2S.

The Eurosystem also organised several information meetings in 2012 in order to keep stakeholders informed about current progress in the T2S project.

Full details about the T2S project are available in English at the ECB website.[19]

18 *http://www.nbs.sk/sk/publikacie/centralna-kniznica-narodnej-banky-slovenska*
19 *http://www.ecb.int/paym/t2s/html/index.en.html*

CHAPTER 6

STATISTICS

6

6 Statistics

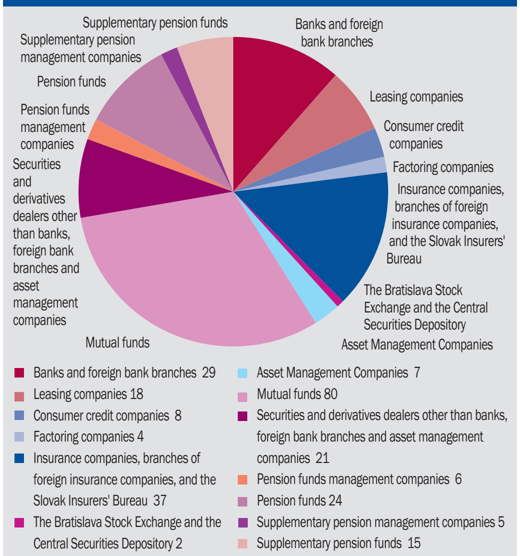
Národná banka Slovenska develops, collects, compiles and disseminates a wide range of statistics which support mainly the implementation of the single monetary policy of the euro area, the maintenance of financial stability, various other tasks of the ESCB, and the tasks of the European Systemic Risk Board (ESRB). These statistics serve not only users at Národná banka Slovenska (when compiling assessment reports for the financial sector or preparing analyses and summaries), but also financial market participants, the media, public authorities (e.g. the Statistical Office of the Slovak Republic, when compiling aggregate macroeconomic data for the financial sector), and, not least, the general public. In 2012 the statistical data for each statistical sector was reported in accordance with the requirements of the ECB/ESCB, Eurostat, the BIS and other international institutions. NBS further streamlined the processing and storage of statistical data and ensured its earlier dissemination. NBS statistical data are published on the NBS website.

6.1 Monetary and financial statistics

The data base provided by monetary and financial statistics is an increasingly extensive resource for users. As regards meeting euro area requirements in this regard, 2012 saw the implementation of decisions of the ECB's Governing Council and the fulfilment of requirements brought about by the impact of the financial crisis. An example is the transmission of balance-sheet data by selected credit institutions for the purpose of monetary analyses and financial stability. In addition, a legal framework for statistics on securities holdings was approved, an ECB Guideline on MFI balance sheet and interest rate statistics and mutual funds statistics was drafted, and requirements for the insurance sector and for payment systems statistics were defined.

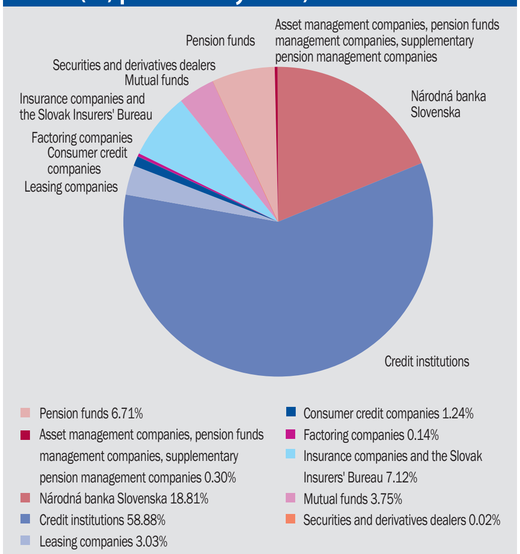
In 2012 NBS disseminated statistical data on a monthly and quarterly basis in both a national format and in a structure consistent with that used

Chart 27 Reporting agents in the financial market broken down by category (number of agents as at 31 December 2012)



Source: NBS.
1) Securities and derivatives dealers (authorised under Act No 566/2001 Coll.) other than banks, branches of foreign banks, asset management companies or branches of foreign asset management companies.

Chart 28 Reporting agents in the financial market broken down by share in total financial market assets as at 31 December 2012 (%; preliminary data)



Source: NBS.

in ECB publications. These data included banking sector statistics, MFI monetary statistics, the national contribution to euro area monetary aggregates and M3 counterparts, interest rate statistics of credit institutions, mutual funds statistics, securities statistics, and data on other financial intermediaries (leasing companies, factoring companies and consumer credit companies). The central bank's *Statistical Bulletin – Monetary and Financial Statistics* continued to be published on a quarterly basis in 2012, and the third quarter edition was supplemented with an annex on time series.

A new feature was the publication of data on equity and debt securities managed by resident banking institutions on behalf of third parties. These data are further broken down by domicile of issuer and domicile of investor, subject to the consent of the reporting bank.

Since May 2012 the Statistics section of the NBS website has been showing selected categories of statistical data for individual euro area countries as well as aggregated data for the euro area as a whole.

6.2 QUARTERLY FINANCIAL ACCOUNTS

Under ECB rules, Národná banka Slovenska is responsible for the production of Quarterly Financial Accounts (QFAs) for Slovakia, which during the year provide information about stocks and flows of financial assets and liabilities in the economy. The main purpose of QFAs is to record how and to what extent households, non-financial corporations, financial corporations, and the government lend to other economic agents and borrow for their own requirements. QFAs are one of the key analytical tools for monitoring the monetary policy transmission mechanism and analysing financial stability.

In the production of QFAs, Národná banka Slovenska cooperates closely with the Statistical Office of the Slovak Republic (SO SR) and the Ministry of Finance of the Slovak Republic (MF SR). The SO SR's responsibilities for the QFAs cover general government sector data and the annual financial accounts for the economy as a whole. In 2012 Národná banka Slovenska worked intensively with the SO SR and MF SR on the harmonisation and comparison of the financial and non-financial data methodology for the general government sector and data related to the annual assessment of the excessive general government deficit.

In accordance with ECB and Eurostat requirements, preparations began in 2012 on the gradual implementation of the ESA 2010 revised system of national accounts into the QFAs. The new ESA 2010 methodology, which is due to be applied from late 2014, will provide a more detailed classification on economic sectors and financial instruments.

6.3 STATISTICS ON THE INSURANCE, CAPITAL MARKET AND PENSION SECTORS

The regular collection and processing of data reported by entities in the insurance, capital market and pension sectors continued in 2012. The data were used for supervision and statistical purposes, for both national and supranational institutions, and their quality in terms of timeliness, accuracy and comparability was maintained. As at the end of 2012 there were 216 registered reporting agents, including 37 in the insurance sector, 129 in the capital market sector and 50 in the pension sector.

Insurance statistics in 2012 were affected by preparations for the implementation of Solvency II, which for reasons related to the legislative process will be postponed by one or two years, i.e. until 2015 or 2016. Modifications to the Solvency II implementation schedule also affected preparations for an ECB regulation on insurance corporation statistics, the purpose of which is to meet the requirements of statistics users at the ECB with source data acquired through Solvency II.

Statistics on the collective investment sector were adjusted in line with provisions of Act No 203/2011 on collective investment and NBS Decree No 3/2012 on the submission of statements by management companies and depositaries of common funds for the purposes of financial market supervision. On the one hand, the structure and content of the report templates were expanded and data were added on types of financial derivative, on the risks of their underlyings, and on the quantitative limits and methods selected for risk assessment. On the other hand, certain obligations were cancelled, namely the obligations to report the first time that the net asset value (NAV) of the mutual fund meets the minimum requirement, to report when the NAV falls below the minimum requirement, to report on the fundamental document of the management company and to report on the fundamental document of the mutual fund.

Statistics reported by pension companies reflected legislative amendments concerning the Old-age Pension Saving System Act and the Social Insurance Act.[20] These amendments substantially changed certain aspects of the old-age pension saving system by, for example, temporarily opening Pillar II of the pension system, modifying the risk management and measurement system, and modifying rules on risk spreading in bond, mixed, equity, and index pension funds.

6.4 STATISTICS ON NON-BANKING ENTITIES

Statistics on non-banking entities are collected and processed from statistical reports submitted by legal entities other than banks and branches of foreign banks, for the compilation of the balance of payments, the international investment position, and foreign direct investment statistics.

The harmonisation of statistics on non-banking entities continued in 2012 in line with the recommendations of international institutions (primarily the ECB) made in regard to the compilation methodology for balance of payments statistics, international investment position statistics and foreign direct investment statistics.

The threshold above which it is obligatory to report information on assets and liabilities vis-à-vis residents abroad and vis-à-vis non-residents was increased from €1 million to €2 million. This adjustment was made in order to reduce the burden on small enterprises of the foreign-exchange reporting obligation under Article 8(2) of the Foreign Exchange Act.

In 2012 work began on a new quarterly report titled SLUZ(NBS)1-04, in which the reporting agent enters data on services received from non-residents and services provided to non-residents. The reporting period is a calendar quarter, and the first reporting period will be the first calendar quarter of 2013. The values entered in the SLUZ(NBS)1-04 report are for each quarter under review; they are not cumulative values from the beginning of the year.

New requirements of the OECD and other international institutions in regard to foreign direct investment statistics were implemented during 2012.

Furthermore, preparations continued for the implementation of requirements laid down in the new Sixth Edition of the IMF Balance of Payments Manual.

6.5 STATISTICAL INFORMATION SYSTEM AND TECHNICAL SUPPORT

As regards information systems dedicated to statistics, a tender was held in 2012 for the supply of the Statistics Collection Portal (SCP). With this portal, NBS would apply state-of-the-art approaches to the collecting, processing and storing of statistical data as well as to the use of this data for statistical purposes and financial market supervision.

The information systems currently used for the collection and processing of data from financial market participants are STATUS and STATUS DFT. In 2012 these systems were updated to make them functionally compatible with Lotus Notes 8, Windows 7 and MS Excel 2010. In addition, work continued on expanding the functionalities of the Statistics Department's server in regard to securities databases, the registry of organisations, and additional application logic.

20 Specifically, with the entry into force of certain provisions of Act No 334/2011 amending Act No 43/2004 Coll. on the old-age pension saving system (including amendments to certain laws) as amended and amending Act No 461/2003 Coll. on social insurance as amended, and with the adoption of Act No 252/2012 amending Act No 461/2003 Coll. on social insurance as amended and amending certain other laws.

ECONOMIC RESEARCH

7

7 Economic research

Key decisions concerning monetary policy and financial stability require in-depth knowledge of the interrelationships between the economic, financial and monetary-policy spheres. Analytical activities of Národná banka Slovenska performed by individual specialist departments put strong emphasis on the timeliness and accuracy of information on their specific business. Economic research consists mainly of in-depth research into relations in the economy, focusing mainly on the broader economic and financial issues that require unconventional and comprehensive solutions. The stress is on applied research, with the outcomes being widely used in decision-making processes. Economic research at NBS is conducted by the Research Department. NBS researchers often work in cooperation with experts from other NBS departments and with other researchers from Slovakia and abroad.

The core focus of economic research at NBS is based on the bank's medium-term strategy for research development. Research activities in 2012 centred on the following six areas: monetary policy, fiscal policy, financial stability, the labour market and real economy, economic modelling, and the euro adoption. These topics reflect the information requirements of the bank's management, as well as the foci of professional debates outside the bank and the recommendations of the research committee. A special research committee comprising experts from Slovakia and abroad oversees the quality and professionalism of the research outcomes of individual researchers by regularly monitoring and approving their research targets. International cooperation of the Research Department at various levels ensures that its research reflects current trends in regard to the topics addressed and methods used. NBS is represented at meetings of research department directors of ESCB central banks, and several NBS researchers are active members of international research teams. As a result there is increasing harmonisation between the research activities of the NBS and those of banks in other EU and euro area countries.

In 2012 Národná banka Slovenska was represented in three ESCB expert groups involved in research activities, as well as in an informal research group that is analysing price differences in the euro area on the basis of harmonised detailed data.

One of the experts groups of which NBS is a member is the Household Finance and Consumption Network (HFCN), which examines the financial situation and expenditure of households. Its data is drawn largely from the results of the first round of a unique survey of European households. An initial analysis of the household savings and debt data collected by the survey was published in 2012 and it will be followed up with a series of more in-depth studies that are expected to shed further light on the extent to which different household groups are affected by macroeconomic shocks and by monetary-policy and institutional changes.

The Macro-prudential Research Network (MaRs) is engaged in research in the following areas: macro-financial models linking financial stability and the performance of the economy; early warning systems and systemic risk indicators; and the assessment of contagion risks. As a member of this group, NBS mainly cooperates in the development of early warning systems and systemic risk indicators.

The Competitiveness Research Network (CompNet) seeks to develop a more consistent analytical framework for assessing competitiveness, one which allows for a better correspondence between determinants and outcomes. CompNet is organised into three relatively independent workstreams. The first is focused on improving existing aggregate measures of competitiveness and proposing new ones. The third is „global value chains". NBS is involved with the second workstream, which examines competitiveness at the firm-level and which is expected to produce the most significant results. The examination of competition in this workstream is based on individual firm-level data sets, hitherto subject to relatively little research, rather than on the aggregated data that has been used to date.

Like researchers in other fields, NBS researchers contribute to broader professional debates by presenting their research at specialist seminars and scientific conferences. They also give thematic lectures on their work to undergraduates and secondary-school pupils; these are held at the NBS headquarters and at universities and secondary schools. The Research Department holds a weekly research seminar at NBS, which plays a key role in the exchange of knowledge. In addition, together with the Department of Economic Policy at the University of Economics in Bratislava and with the Centre for Economics and Finance at the Faculty of Mathematics, Physics and Informatics at Comenius University in Bratislava, the NBS Research Department organises a cycle of seminars called the "Bratislava Economic Seminars". These seminars provide a forum for researchers from Slovakia and abroad to present the fruits of their research and acquire value feedback, often in advance of the official publication of their work. The most important event organised by the NBS Research Department in 2012 was an international research conference entitled "Fiscal Policy and Coordination in Europe", at which more than 30 speakers presented new research and findings concerning fiscal policy and the debt crisis, as well as proposals for addressing the issues identified and predictions of how these issues will develop. The keynote speakers at this event were two highly regarded foreign economists, Charles A. Goodhart and Daniel Gros. Also in 2012 NBS co-financed the Input-Output Conference in Bratislava, which attracted more than 350 foreign participants. Furthermore, NBS cooperated with the University of Economics in Bratislava and Comenius University in Bratislava in organising the Young Economists' Seminar, providing an informal environment in which doctoral students could discuss their research.

The most notable outcomes of NBS research in 2012 were published in economics journals. The more extensive works appeared in the form of reviewed working papers (WPs), and specialist analyses in one of the following forms: policy paper (PP), occasional paper (OP) or discussion paper (DP). The Research Department's published reports, papers and analyses are available on the NBS website.[21]

The Research Department published two peer-reviewed working papers and two specialist analyses in 2012, and in cooperation with other NBS departments it also drafted and published two editions of the Financial Stability Report. NBS researchers also worked with colleagues from other euro area national central banks on joint research and analysis projects, with their key outcomes being published as ECB papers. One such publication assessed the financial stability of EU candidate countries,[22] while another analysed factors behind the labour market situation in euro area with a focus on the repercussions of the financial and economic crisis.[23]

Box 1

PAPERS AND ANALYSES PUBLISHED IN 2012

Jarko Fidrmuc and Matúš Senaj
Human capital, consumption and housing wealth in transition

This paper focuses on human capital and housing wealth in Slovakia during the economic reforms of the last two decades. We compare households that entered the labour market before and after the Revolution in 1989. The returns to education for different household cohorts are examined, as are the determinants of housing wealth and its impact on consumption. The results show that older cohorts are characterised by lower returns to human capital and consumption levels, but also by higher housing wealth.

Tibor Lalinský
Analysis of the Slovak economy's convergence in 2012

The Slovak economy's real convergence remained favourable in 2011, and its pace of growth continued to be one of the strongest among EU countries. Employment increased moderately and the unemployment rate declined slightly. The balance of payments current account was in surplus. Nevertheless, Slovakia, like a majority of EU Member States and candidate countries, did not fulfil the fiscal and inflation criteria for nominal convergence. The outlook is for the economic situation in Europe to deteriorate in 2012

21 http://www.nbs.sk/en/publications-issued-by-the-nbs/working-papers and http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/financial-stability-report
22 Occasional Paper No 136: Financial Stability Challenges for EU Acceding and Candidate Countries.
23 Occasional Paper No 138: Euro Area Labour Markets and the Crisis.

and then improve in 2013. In several countries (including Slovakia) there could be a recovery in nominal convergence, too.

Matúš Senaj, Tibor Zavadil
The financial situation of Slovak households – survey results

In 2010 Národná banka Slovenska conducted a household finance and consumption survey in Slovakia, the first such survey focused on the wealth and indebtedness of Slovak households. This formed part of the ECB-coordinated Household Finance and Consumption Survey, a project in which all euro area countries are participating. This paper describes that project, its implementation in Slovakia, and its most important outcomes.

Martina Alexová
Inflation drivers in new EU members

This paper focuses on the determinants of inflation in new EU Member States. The results show that cost-push factors are to the fore in half of the countries while demand-pull factors prevail in the rest of the countries. An appropriate monetary strategy to control inflation should be implemented in euro area countries in accordance with the ECB's monetary strategy. Lithuania, Latvia and Bulgaria should maintain a credible currency peg to the euro. In inflation-targeting countries, the priorities should be to maintain price stability and avoid overheating pressure. Appropriate structural adjustments – particularly in labour markets and production capacity – could help maintain a stable price level in all the countries.

Financial Stability Report – May 2012

The report noted that conditions for financial stability in Slovakia deteriorated in 2011 as a consequence of the debt crisis. In financial markets, strains and elevated uncertainty remained present in the first months of 2012. The Slovak economy showed relatively strong resilience to headwinds from abroad owing to its macro-financial stability and growth in industrial production destined for export. Based on stress test results, the financial sector is expected to maintain its stability. The report includes an annex on indebtedness and its impact on economic growth, which points out that high debt ratios are reducing the efficacy of anti-cyclical policies. In order to restore robust growth in advanced economies, both private and public balance sheets need to be repaired. Another annex looks at macroeconomic imbalances and shows that current imbalances are the result of long-term differences in the structure of euro area economies and that current account imbalances have fed through to the funding structure of the balance of payments capital account. Export performance is stabilising Slovakia's position with the rest of the world, and Slovakia is not among the countries that have risky macroeconomic imbalances.

Financial Stability Report – November 2012

The report noted that the most acute manifestations of systemic crisis in euro area financial markets had abated due to the ECB's non-standard measures. The domestic economy proved resilient to headwinds from abroad, but considering the worsening economic situation in other countries and the effects of fiscal consolidation at home, growth projections for the Slovak economy have been revised down. Consequently, the expectations regarding conditions for domestic financial stability have deteriorated moderately. Nevertheless, the domestic financial sector remains in a strong position to face tougher conditions and mounting risks. One annex of the report assessed the emerging banking union and its potential benefits and risks to bank supervision in Slovakia. The banking union may be seen as a necessary, but not in itself sufficient, step towards ending the negative feedback loop between the solvency of banks and sovereigns. The second annex focuses on real income developments in the Slovak economy from the view of income generation. It draws attention to factors that restrict real income growth, identifying them as one of the reasons for low domestic demand. The third annex examines how bank liquidity is affected by the business cycle as well as by the structure of banks' balance sheets. It confirms the impact of the business cycle and selected balance-sheet items on the net liquidity position of banks.

EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

8 European affairs and international cooperation

8.1 EUROPEAN AFFAIRS

Eurosystem

On 1 January 2009 NBS became a member of the Eurosystem, which comprises the ECB and the national central banks of all the EU Member States that have adopted the euro. The NBS Governor is, by virtue of his position, a member of the Governing Council of the European Central Bank, the ECB's highest monetary-policy authority (its main responsibility being to formulate monetary policy for the euro area). The Governor is also a member of the ECB General Council, a transitional decision-making body that will cease to exist once all EU Member States have adopted the single currency. In 2012 the NBS Governor attended 23 meetings of the Governing Council and four meetings of the General Council.

The ECB's decision-making bodies are assisted in their tasks by the committees of the Eurosystem/ESCB established for each of the principal areas of NBS activities. During 2012 more than 80 NBS employees participated in the work of these committees and their working groups. The participation of NBS specialist departments in Eurosystem tasks represents a significant part of NBS's activities.

The Euopean Union

In 2012 the NBS Governor attended the two informal meetings of the Council of Ministers for Economic Affairs and Finance (ECOFIN), in Copenhagen in March and in Nicosia in September (the meetings are hosted by the country that holds the rotating EU Presidency). A number of NBS employees were involved in activities of committees, sub-committees and working groups of the European Commission and European Council.

8.2 NBS COOPERATION WITH INTERNATIONAL INSTITUTIONS

International Monetary Fund (IMF) and the World Bank

The main events of the Bretton Woods institutions in 2012 were the IMF/WB Spring Meeting, held in Washington D.C. in April, and the IMF/WB Annual Meeting in Tokyo in October. The NBS Governor attended both meetings in his capacity as Governor of the IMF for Slovakia.

In July 2012 the NBS Governor and Slovak Finance Minister, acting on behalf of Slovakia, signed the *Agreement on an IMF Constituency for 2012–2022 Establishing a Central and Eastern European IMF Constituency*. Under the Agreement, Austria will nominate the Executive Director of the IMF to be elected by the group for the period 2012–2014. Slovakia will hold a position of Senior Advisor to the Executive Director.

Slovakia's exposure to the IMF increased in 2012. As at 31 December 2012 Slovakia's commitment to the IMF amounted to SDR 123.5 million under the Financial Transactions Plan (FTP) and SDR 53.9 million under a bilateral loan agreement with the IMF.

A regular IMF mission visited Slovakia in May 2012 for economic policy consultations under Article IV of the IMF Agreement. In July the IMF undertook consultations on matters of euro area monetary policy and foreign-exchange policy common to all euro area countries. Consultations also took place during an IMF Staff Visit to Slovakia in December 2012.

In December 2012 Slovakia contributed €1.3 million to the IMF Poverty Reduction and Growth Facility (PRGF), using funds received from the IMF's windfall gold sales profits.

In 2012 Slovakia's contribution to the International Development Association (IDA) amounted to €820,000 and its contribution to the Multilateral Debt Relief Initiative (MDRI) was €60,000. The contributions were made under the terms of Slovakia's participation in the 16th replenishment of IDA funds and in the financing of the MDRI.

Organisation for Economic Co-operation and Development (OECD)

In 2012 NBS representatives met members of an OECD structural and policy mission to Slovakia in order to discuss issues related to public finances.

In addition, NBS participated in the drafting of an OECD report on Slovakia, which was evaluated by the OECD's Economic and Development Review Committee on 22 October 2012 and presented on 6 December 2012, during a visit to Slovakia by OECD Secretary-General Angelo Gurria.

European Bank for Reconstruction and Development (EBRD)

In May 2012 the Board of Governor's of the EBRD held its 21st Annual Meeting in London. The Slovak delegation to the meeting included representatives of NBS and was headed by the NBS Governor. A key part of the meeting was the election of Sir Suma Chakrabarti (United Kingdom) as the new EBDR President, for a four-year term of office beginning on 3 July 2012. Also on the agenda was the approval of the auditor's report and the allocation of net income, including the earmarking of €1 billion for a special investment fund for the southern and eastern Mediterranean.

Bank for International Settlements (BIS)

In 2012 the NBS Governor attended the five regular meetings of the governors of BIS member central banks, held in Basel, Switzerland. The discussions centred on current issues related to the financial crisis, including the central bank bond purchase programme and its effectiveness, the importance of finances in central bank policy, reform of the OTC derivatives market, the insufficiency of collateral and its effect on central bank operations, and the scope and globality of the financial system.

The 82nd Annual General Meeting of the BIS was held in June 2012, with NBS represented by the Governor and the Bank Board member responsible for financial market operations. The main item on the agenda was the approval of the BIS's financial results and the distribution of its profit and dividends.

8.3 INTERNATIONAL ACTIVITIES OF NBS IN THE FIELD OF SUPERVISION

The new European-level supervisory architecture, established on 1 January 2011, completed its second year of operation in 2012. The **European Systemic Risk Board (ERSB)** is responsible for macro-prudential supervision, and the **European Banking Authority (EBA)**, European Insurance and **Occupational Pensions Authority (EIOPA)**, and **European Securities and Markets Authority (ESMA)** are responsible for micro-prudential supervision.

The **ESRB**'s General Board convened four times in 2012, with NBS represented by the Governor and the Executive Director of the Financial Market Supervision Unit. The Board's discussions focused on the systemic risks to the financial system. In 2012, based on an assessment of systemic risks, the General Board adopted two recommendations (on the funding of credit institutions, dealing mainly with asset encumbrance, and on money market funds), and it decided to publish two recommendations adopted in 2011 (on US dollar denominated funding of credit institutions, and on the macro-prudential mandate of national authorities). NBS, as an addressee of the recommendations, sent the ESRB a report on their implementation.

The **EBA's** activities in 2012 focused on the coordination of banking supervisors (which included assisting the supervisory colleges established for banking groups) and fulfilled its mandate in the areas of financial innovation and consumer protection by establishing common supervisory standards and procedures. The EBA performed these activities through its committees and through working groups set up under these committees. NBS representatives participated in the activities of the working groups. An EBA evaluation committee assessed the level of convergence which its members had achieved in the implementation of common supervisory standards and procedures.

NBS continued its involvement with the **EIOPA** in 2012 through the activity of NBS representatives on EIOPA committees and working groups, as well as by making proposals and comments regarding EIOPA documents on regulation and the functioning of the financial market in the areas of insurance, financial intermediation, and pensions. NBS fully exercised its power to vote for or against individual documents, whether at meetings of the EIOPA's Board of Supervisors or through the so-called "written approval" procedure. In 2012 NBS participated mainly in the production of draft technical standards and recommendations concerning the Solvency II Directive and in the drafting of EIOPA's advice on the review of the IORP Directive, which aims to modernise the European legal framework for pension business (Pillar III of the pension system).

NBS is also represented on **ESMA's** committees, being involved mainly in the formulation of relevant regulatory policies for the securities market as well as in the drafting of regulatory technical standards, guidelines and recommendations. In 2012 the focus of NBS's work with the ESMA was the drafting of regulatory and technical standards for the AIFM Directive, the preparation of several guidelines on UCITS funds, and the preparation of delegated regulations in relation to the revised directive on the prospectus.

NBS's activities in the international area also include cooperation with supervisory authorities from other countries, in particular with those of the parent banks and insurance undertakings of banks and insurance companies established in the Slovak Republic. Last year's cooperation with supervisors took place at both bilateral and multilateral levels, mainly through the supervisory colleges for different banking and insurance groups.

8.4 FOREIGN TECHNICAL ASSISTANCE

NBS was one of 21 Eurosystem/ESCB central banks which in 2012 were partners in the technical assistance programme for the National Bank of Serbia. The programme was approved by the ECB's Governing Council in December 2010 and started to be implemented in 2011. Through ongoing consultations and several missions in 2011 and 2012, NBS assisted the National Bank of Serbia in the preparation of manuals for the supervision of the insurance sector and supervision of pension funds. A third area of technical assistance between the two central banks was the approximation of EU legislation. NBS provided a wide-ranging presentation of the most important tasks in this regard and contributed its specific experience in the transposition of EU legislation and in related organisational measures. In view of savings in the planned costs, the programme was extended at the request of the National Bank of Serbia by almost one year, to 31 December, and it was also expanded to include other areas of technical assistance.

In 2012 NBS and 11 other Eurosystem/ESCB central banks were partners in the technical assistance programme for the National Bank of the Republic of Macedonia, the purpose of which is to compare the Macedonian central bank's activities in specific areas against EU standards and to set reference points/levels that the bank must reach in these areas before the accession to the EU. The role of NBS in this programme centres on the areas of risk management, issuance of publications, and the building up of the central bank's library and archive.

In 2012 NBS continued its long-standing provision of technical assistance to the National Bank of Ukraine. Two specialist events were held in Bratislava, on the subjects of economic research and balance of payment statistical reporting by central banks. Another event, held in Kiev, focused on accounting and reporting according to European standards.

NBS cooperation with the National Bank of the Republic of Belarus also continued in 2012. NBS organised a specialist seminar on the payment system in Slovakia. At educational events in Belarus, NBS experts gave lectures on the preparation and implementation of monetary policy, corporate culture and the DSGE model.

As part of a twinning project, NBS representatives informed their counterparts from the National Bank of Poland on the most important aspects of the changeover to euro cash, in particular on preparations for a new, amended legal framework, the selection of the national sides of euro coins, calculating the required volume of euro banknotes and euro coins, and the agreement with the Eurosystem on the supply of euro banknotes. The presentation also included information on the transportation and logistical issues that NBS faced in regard to euro cash, on the logistical interactions between NBS and its customers (especially as the area of frontloading and sub-frontloading), and on the process of withdrawing the Slovak koruna from circulation. Other issues covered were the practical aspects of the single currency and the impact on the legal framework, obligations concerning the provision of cash services, and the implementation of policies decided on by the ECB's Governing Council.

As part of the European Commission's Technical Assistance and Information Exchange (TAIEX) instrument, staff members from the central banks of the Republic of Macedonia and Montenegro made study visits to Národná banka Slovenska in June 2012. The focus of these visits was the identification of counterfeits and the protection of the euro against counterfeiting.

CHAPTER 9

LEGISLATION

9

9 Legislation

In 2012 Národná banka Slovenska continued to exercise its competences in the drafting of legislation (including the transposition of relevant EU laws), in accordance with Act No 566/1992 on Národná banka Slovenska as amended (the NBS Act). Under Article 30(1) of the NBS Act, the central bank submits draft laws on currency circulation to the Slovak Government. Under Article 30(2) of the NBS Act, draft laws concerning payment systems, payment services or the financial market (including the banking sector and NBS activities) are jointly submitted by NBS and the Slovak Finance Ministry to the Slovak Government. Also within its legislative competences, NBS drafts and issues secondary legislation in the form of NBS regulations and decrees. Its authority to issue generally binding legislation is based on Article 56(2) of the Constitution of the Slovak Republic, according to which NBS may issue such legislation where authorised by statutory law to do so.

AMENDMENTS MADE IN 2012 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 483/2001 Coll. on banks (including amendments to certain laws) as amended was amended in 2012 by Act No 234/2012 Coll. and Act No 352/2012 Coll.

Act No 566/2001 Coll. on securities and investment services (including amendments to certain laws) (the Securities Act) as amended was amended in 2012 by Act No 440/2012 Coll.

Act No 492/2009 Coll. on payment services (including amendments to certain laws) was amended in 2012 by Act No 352/2012 Coll.

Act No 43/2004 Coll. on the old-age pension saving system (including amendments to certain laws) as amended was amended in 2012 by Act No 252/2012 Coll. and Act No 413/2012 Coll.

Act No 118/1996 Coll. on deposit protection (including amendments to certain laws) as amended was amended in 2012 by Act No 233/2012 Coll.

Act No530/1990 Coll. on bonds as amended was amended in 2012 by Act No 296/2012 Coll.

IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2012

REGULATIONS

Regulation No 161/2012 Coll. of Národná banka Slovenska on how to demonstrate compliance with conditions for the issue of an authorisation to establish and operate a supplementary pension management company.

Regulation No 179/2012 of Národná banka Slovenska Coll. on the elements of an application for prior approval from Národná banka Slovenska made in accordance with Act No 650/2004 Coll. on the supplementary pension saving system (including amendments to certain laws).

DECREES WHERE THE FULL TEXT OF THE DECREE WAS PUBLISHED IN THE COLLECTION OF LAWS OF THE SLOVAK REPUBLIC

Decree No 154/2012 Coll. of Národná banka Slovenska on fees for an issuer of securities and on their method of payment by a pension funds management company.

Decree No 155/2012 Coll. of Národná banka Slovenska on the risk management system, risk measurement, and the calculation of global exposure and counterparty risk in pension funds.

Decree No 162/2012 Coll. of Národná banka Slovenska on how to demonstrate compliance with conditions for the issue of an authorisation to establish and operate a pension funds management company.

Decree No 163/2012 Coll. of Národná banka Slovenska defining what is meant by false or misleading information, services or performance not related to the old-age pension saving system.

Decree No 180/2012 Coll. of Národná banka Slovenska on methods and procedures for determining the asset value of pension funds and supplementary pension funds.

Decree No 332/2012 Coll. of Národná banka Slovenska amending Decree No 467/2010 Coll. of Národná banka Slovenska on the submission of reports in accordance with the Foreign Exchange Act.

DECREES ISSUED BY NBS IN 2012 WHERE A NOTIFICATION OF THE DECREE'S ISSUANCE WAS PUBLISHED IN THE COLLECTION OF LAWS OF THE SLOVAK REPUBLIC

Decree No 1/2012 of Národná banka Slovenska of 3 January 2012 amending Decree No 4/2007 of Národná banka Slovenska on banks' own funds and banks' capital requirements and on investment firms' own funds and investment firms' capital requirements as amended (Notification No 9/2012 Coll.).

Decree No 2/2012 of Národná banka Slovenska of 3 January 2012 amending Decree No 6/2009 of Národná banka Slovenska on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for supervision purposes (including amendments to Decree No 26/2008 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes) as amended by Decree No 4/2011 of Národná banka Slovenska (Notification No 10/2012 Coll.)

Decree No 3/2012 of Národná banka Slovenska of 10 January 2012 on the submission of statements by management companies and depositaries of common funds for the purposes of financial market supervision (Notification No 25/2012 Coll.).

Decree No 4/2012 of Národná banka Slovenska of 24 January 2012 amending Decree No 11/2010 of Národná banka Slovenska stipulating methods of valuing banking book positions and details of the valuation of banking book positions, including the frequency of such valuations (Notification No 45/2012 Coll.).

Decree No 5/2012 of Národná banka Slovenska of 28 February 2012 specifying details of the content of the fund rules of common funds and the fund rules of umbrella funds (Notification No 101/2012 Coll.).

Decree No 6/2012 of Národná banka Slovenska of 12 June 2012 on how to demonstrate compliance with the conditions for the issue of a management company's authorisation (Notification No 182/2012 Coll.).

Decree No 7/2012 of Národná banka Slovenska of 3 July 2012 amending Decree No 6/2009 of Národná banka Slovenska on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for supervision purposes (including amendments to Decree No 26/2008 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes) as amended (Notification No 209/2012 Coll.).

Decree No 8/2012 of Národná banka Slovenska of 20 November 2012 on fees for acts performed by Národná banka Slovenska (Notification No 376/2012 Coll.).

CHAPTER 10

INSTITUTIONAL DEVELOPMENTS

10

10 Institutional developments

10.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska (NBS) was established as the independent central bank of the Slovak Republic on 1 January 1993, under Act No 566/1992 Coll. on Národná banka Slovenska.

The primary objective of Národná banka Slovenska is to maintain price stability. To this end the central bank:

- participates in the common monetary policy set by the European Central Bank for the euro area;
- issues euro banknotes and euro coins in accordance with separate regulations that apply in the euro area to the issuance of euro banknotes and coins;
- promotes the smooth operation of payment and settlement systems; regulates, coordinates and oversees currency circulation, payment systems, and payment settlements; and ensures that these systems are run efficiently and cost-effectively;
- maintains and manages foreign reserves and conducts foreign exchange operations in accordance with separate regulations applicable to Eurosystem operations;
- performs other activities relating to its participation in the European System of Central Banks.

As regards the financial market, NBS supports the stability of the financial system as a whole as well as the security and sound operation of the financial market, so as to ensure the system's credibility, the protection of customers, and compliance with the rules of economic competition. Národná banka Slovenska is also the financial supervisory authority in Slovakia, meaning that it exercises supervision over banks, branches of foreign banks, investment firms, investment services intermediaries, stock exchanges, asset management companies, investment funds / collective investment undertakings, insurance companies, reinsurers, pension funds management companies, pension funds, supplementary pension management companies, and other financial market participants which are subject to regulatory supervision.

NBS became a member of the Eurosystem when Slovakia adopted the euro, on 1 January 2009.

The Eurosystem as the central banking system of the euro area comprises:

- the European Central Bank (ECB); and
- the national central banks (NCBs) of the 17 EU Member States whose common currency is the euro.

The Eurosystem is thus a sub-set of the ESCB. Since the ECB's policy decisions, such as on monetary policy, apply only to euro area countries, it is in reality the Eurosystem which carries out the central bank functions for the euro area. Therefore the ECB and the NCBs jointly contribute to attaining the common goals of the Eurosystem.

There are three main reasons for having a system of central banking in Europe:

- The Eurosystem approach builds on the existing competencies of the NCBs, their institutional set-up, infrastructure, expertise, and excellent operational capabilities. Moreover, several central banks perform additional tasks beside those of the Eurosystem.
- Given the geographically large euro area and the long-established relationships between the national banking communities and their NCB, it was deemed appropriate to give the credit institutions an access point to central banking in each participating Member State.
- Given the multitude of nations, languages and cultures in the euro area, the NCBs (instead of a supranational one) were best located to serve as access points of the Eurosystem.

The euro area NCBs, which form an integral part of the Eurosystem, carry out the tasks conferred upon the Eurosystem in accordance with the rules established by the ECB's decision-making bodies. The NCBs also contribute to the work of the Eurosystem and the ESCB through their participation in the various Eurosystem/ESCB Committees.

Eurosystem/ESCB committees

The Eurosystem/ESCB committees play an important role in assisting the ECB's decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the ECB's Governing Council.

- Accounting and Monetary Income Committee
- Banknote Committee
- Committee on Cost Methodology
- Eurosystem/ESCB Communications Committee
- Financial Stability Committee
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Payment and Settlement Systems Committee
- Risk Management Committee
- Statistics Committee
- Budget Committee
- Eurosystem IT Steering Committee
- Human Resources Conference

10.2 ORGANISATION AND MANAGEMENT

The Bank Board of Národná banka Slovenska

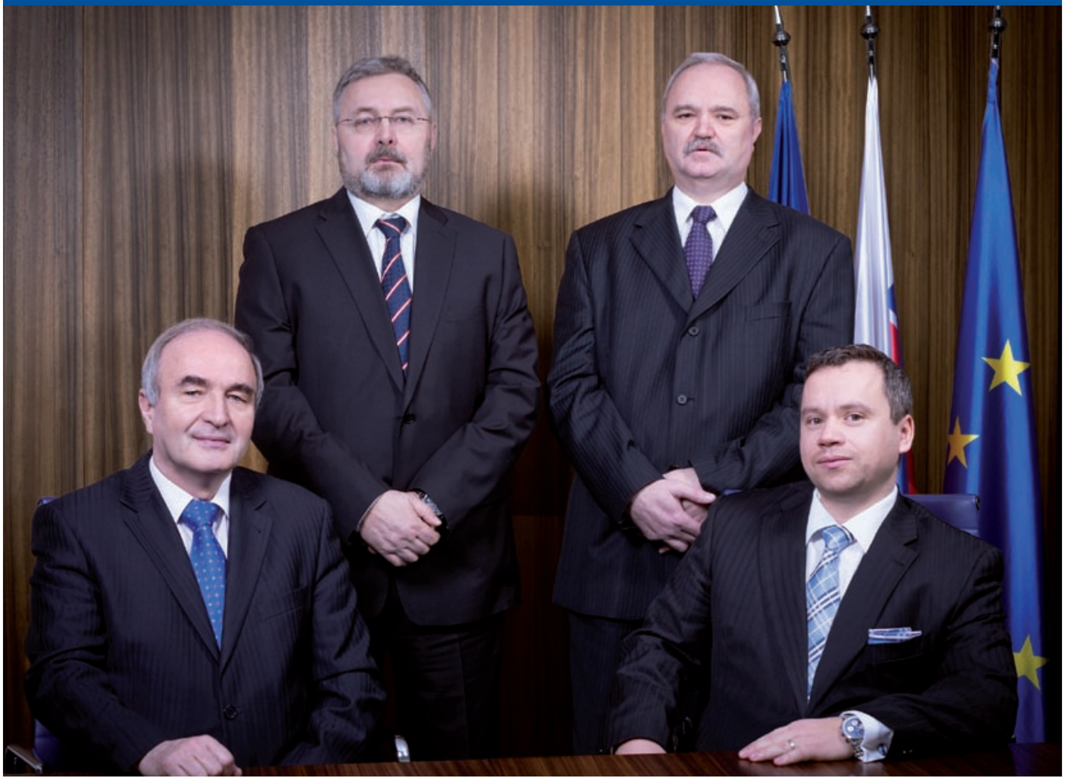
The highest governing body of Národná banka Slovenska is the Bank Board. The scope of its powers is laid down in the Act on Národná banka Slovenska („the NBS Act"), other generally applicable legislation, and the Organisational Rules of NBS.

The number of Bank Board members has been set at five since 1 December 2009, under Article 7 of the NBS Act. The five members include the Governor and two Deputy Governors.

The Governor and Deputy Governors are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and subject to the approval of the Slovak Parliament. The other two members of the Bank Board are appointed, and may be dismissed, by the Slovak Government at the proposal of the NBS Governor.

The term of office of Bank Board members is five years, commencing as of the effective date of their appointment. There are no term limits for Bank Board members, but no one may serve as Governor or Deputy Governor for more than two terms.

Members of the NBS Bank Board as at 31 December 2012



First row (from the left): Jozef Makúch, Ján Tóth
Second row (from the left): Štefan Králik, Karol Mrva

The Bank Board members who ended their term of office in 2012 were:

- Ing. Gabriela Láni Sedláková, Executive Director for information technology and facility services (Bank Board member until 1 June 2012);
- Ing. Viliam Ostrožlík, MBA, Deputy Governor, Division for Financial Management, Human Resources Management, Banknotes and Coins, and Currency Circulation Management (Bank Board member until 11 July 2012).

The members of the Bank Board as at 31 December 2012 were:

- doc. Ing. Jozef Makúch, PhD., Governor;
- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services;
- Mgr. Ján Tóth, M.A., Deputy Governor, Division for the Monetary Policy, Statistics, and Research.

The Executive Board of Národná banka Slovenska

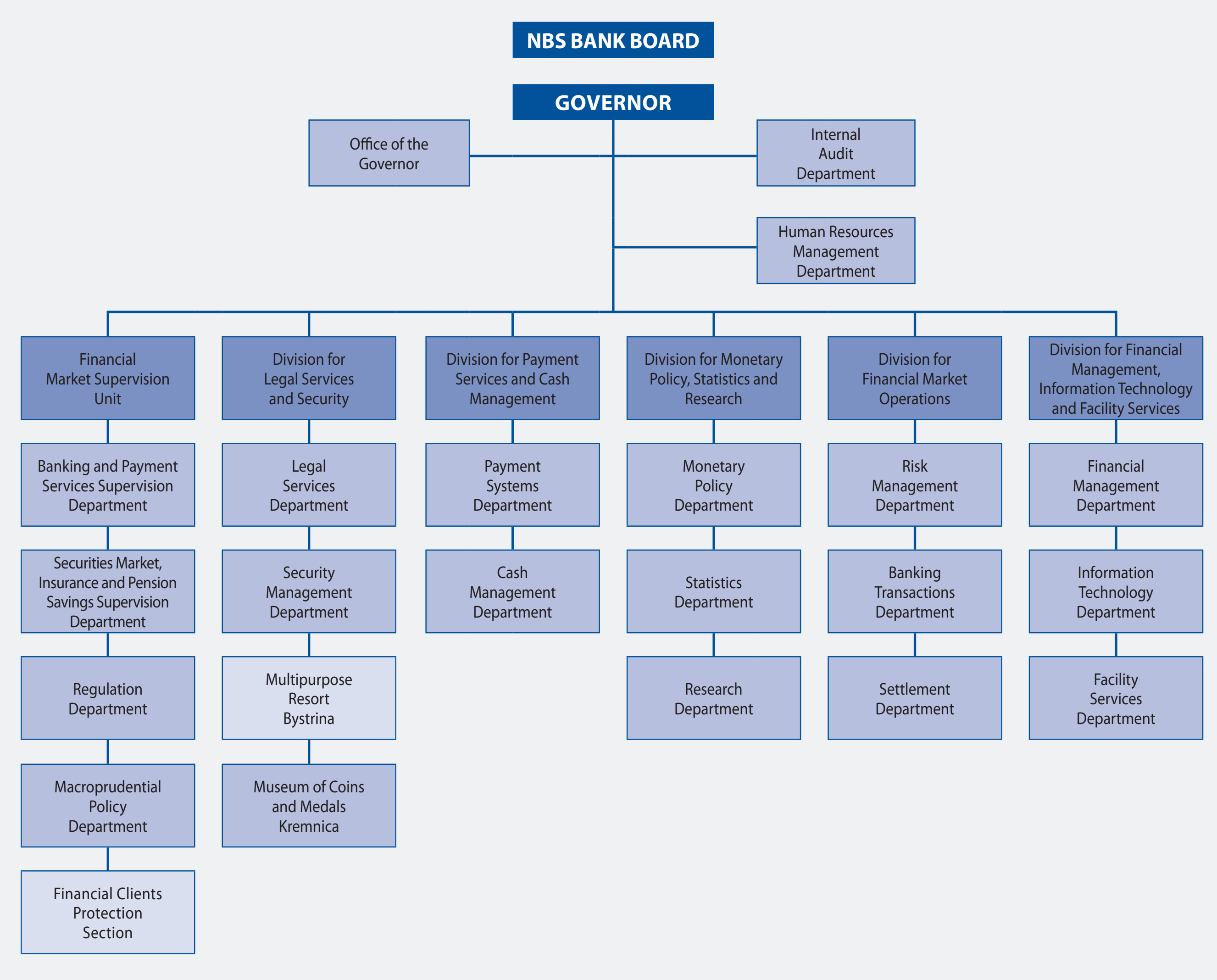
The Executive Board of Národná banka Slovenska was established by the NBS Bank Board with effect from 1 August 2012, in accordance with Article 6(2)(i) of the NBS Act. The Executive Board is the managing, executive and coordination authority of NBS.

The Executive Board is composed of the NBS Governor, Executive Directors and other senior managers appointed by the Governor. Executive Board meetings are chaired by the Governor or, in his absence, another Executive Board member nominated by the Governor.

The members of the Executive Board as at 31 December 2012 were:
doc. Ing. Jozef Makúch, PhD., Governor;

- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services;
- Ing. Vladimír Dvořáček, Executive Director of the Financial Market Supervision Unit;
- Ing. Miroslav Uhrin, Executive Director for financial management, information technology and facility services;
- Ing. Renáta Konečná, General Director of the Monetary Policy Department.

NBS organisation structure as at 31 December 2012



In line with decisions of the NBS Bank Board, three amendments to the NBS Organisational Rules were approved in 2012; one of them entered into force on 1 January 2013. The organisational changes included a change to the organisational structure of NBS and modifications to the duties and competences of certain senior managers. The most recent organisation structure is available on the NBS website www. nbs.sk.

10.3 HUMAN RESOURCES

Národná banka Slovenska had 1,007 employees as at 31 December 2012. A total of 59 employees left the bank in 2012, including 25 due to organisational changes. Last year the bank hired 38 new employees and conducted 38 recruitment procedures.

Staff exchanges between ESCB national central banks, the ECB and other international financial institutions serve to support staff mobility within the ESCB, the exchange of experience and know-how, and the development of human resources. A total of eight NBS employees were on secondment to either the ECB or European Banking Authority during the whole or part of 2012.

The rules and principles of staff remuneration at the bank are laid down in internal NBS Work Regulation No 28/2008 on the remuneration of NBS employees as amended. The average monthly salary in 2012 was €1,769.75.

The employees who left the bank last year due to organisational reasons received all the payments owed to them under the Labour Code, NBS Collective Agreement, and internal work regulations. Severance payments were made to 24 employees who left the bank on grounds of retirement, early retirement or invalidity. The number of NBS employees enrolled in the supplementary pension system stood at 815 as at 31 December 2012.

10.4 EDUCATION

The Human Resources Department, in cooperation with the NBS Institute of Banking Education, arranged the attendance of NBS employees on training courses in line with the employees' educational and developmental needs and with the current requirements of their respective units.

The training courses focused on the following areas:

- specialist training,
- management training and development,
- language training,
- IT training,
- social skills training,
- general training.

A total of 898 employees attended training courses in 2012.

Last year the Human Resources Department organised two international training projects.

The number of NBS staff members involved in teaching, lecturing and advisory work is increasing from year to year, and in 2012 it stood at 94 (from 19 departments).

A total of 13 university students completed internships at NBS in 2012, including five from universities in Slovakia and eight studying in other European Union countries.

CHAPTER 11

COMMUNICATION

11

11 Communication

As a part of its activities, NBS publishes information on monetary developments in the euro area, on key indicators for the Slovak and European economies, and on activities of banks and all other participants in the Slovak financial market. Information, reports and analyses submitted by NBS serve as a basis not only for many decisions adopted by the Slovak Government and Parliament, but also for media, economic research institutes, and educational institutions. The Slovak central bank is constantly striving to develop, modernise and improve the quality of its communication tools, so that it can respond as effectively as possible to the demand for information and address target groups with maximum efficiency. In this regard NBS stresses the importance of openness and transparency, so as to maintain its high standing in the eyes of the Slovak public.

One of the key pillars of the NBS communication policy is to participate in the Eurosystem's communications procedures, which primarily involve the regular provision of information about monetary developments and the real-time communication of monetary-policy decisions.[24]

In 2012 NBS continued to follow the principle of openness and transparency in communicating its decisions, which concerned financial market supervision, oversight of the payment system and currency circulation, issuing activities, and other areas. NBS organised press conferences to announce the publication of the Medium-Term Forecast for key macroeconomic indicators (published quarterly) and the Analysis of the Slovak Financial Sector (twice a year).

At the end of 2012 NBS provided initial details of the new „Europa" series of euro banknotes, including all key facts regarding the appearance and security features of the first banknote of the series, the €5 denomination, which will be put into circulation in May 2013.

NBS also communicates directly with members of the public via e-mail. In 2012 NBS dealt with 3,012 questions, responses and other comments from the public concerning various matters, including 102 requests under the Freedom of Information Act (No 211/2000 Coll.).

NBS publications

During 2012 NBS issued periodical specialist publications providing information and analysis in its main fields of activity. These publications included the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Monthly Bulletin, Medium-Term Forecast and Statistical Bulletin.[25] NBS also published analyses and working papers on current economic issues. In line with the principles of the Eurosystem/ESCB's multilingual communication system, NBS contributed to the preparation of the Slovak versions of official ECB publications.[26]

The majority of NBS official publications are issued only in electronic form. In 2012, to make its information as easy to access as possible, NBS published the Annual Report in ePub format for the first time and began to use QR codes in its information materials.

The Biatec journal continued to play an important role in NBS communication activities, providing specialist articles in the area of banking, finance and economics. Through Biatec, the central bank interrelates with authors and readers from the banking and financial sector, academia, and the educational sector. Written in Slovak with English-language summaries of selected articles, Biatec is published ten times per year and the full text is available on the NBS website.[27]

NBS website

NBS continued to improve the information service on its website in 2012, most significantly by publishing selected sets of statistical data for individual euro area countries as well as aggregate data for the euro area as a whole. These datasets were presented in chart form, as were housing prices and all exchange rates, including historical exchanges rates of the Slovak koruna for the period 1993–2008.

In response to a sharp rise in the volume of website traffic coming from mobile devices, NBS introduced an "*Exchange Rate*" app for iPhone, which can be used to convert different currencies to and from the euro according to the exchange rates listed by the ECB.

24 For further details, see Box 2 in the NBS Annual Report for 2010 (page 76).
25 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications
26 http://www.nbs.sk/en/publications-issued-by-the-nbs/ecb-publications
27 http://www.nbs.sk/en/publications-issued-by-the-nbs/journal-biatec

The number of visitors to the NBS website continued to show a moderate rising tendency in 2012, with a daily average of more than 17,000.

Lectures, exhibitions and competitions

During 2012 NBS hosted lectures attended by almost 2,100 people in total, mainly schoolchildren and university students, and it also organised an expert seminar for journalists.

In 2012 the NBS touring exhibition„The Euro – Our Currency" was installed at the Management Systems Institute of the Faculty of Economics at Matej Bel University in Banská Bystrica. At its gala opening, the NBS Governor gave a lecture and spoke with students. The exhibition was also taken to an international economic conference in Cracow, Poland, and it was installed at the Government Office in Bratislava and, towards the end of the year, at the NBS sub-branch in Košice.

The first annual running of Generation €uro, a Eurosystem competition for schoolchildren, was completed in June 2012, and the winners received their prizes at the ECB headquarters. The competition showed that secondary schools in Slovakia (more so than those in other participating countries) are very keen to raise pupils' awareness of central banking and related issues. NBS and other euro area NCBS will continue their involvement in this project. The second running of the competition began in November 2012 with lectures for participating teachers.[28]

In the first quarter of 2012 the ECB organised an online „Euro Run" competition for children aged between 9 and 12 residing in the EU. The competition was part of the 10th anniversary celebrations for the euro. A total of 1,669 pupils from Slovakia entered the competition (out of 7,449 participants from the euro area) and four of them took the first four places in the overall ranking.

NBS archive and library

The NBS Archive[29] is a specialist department that processes and protects archivalia and artefacts, dating back to 1841, which previously belonged to NBS's predecessor institutions, and it makes these materials available to the general public.

Most of the Archive's activities in 2012 were focused on new legislation for archive and registry management and on the digitisation of documents, including an extensive nation-wide project to establish an electronic database of records of archival fonds and collections (called AFondy).

The NBS Library[30] is enlarging its information resources and database specialising mainly in the areas of central and commercial banking, financial supervision, European monetary policy, issuance policy, and payments systems and financial management. At the same time, it provides library, informational, retrieval and advisory services, mostly to NBS staff members and interns as well as to the public, while making use of external information resources and databases.

In 2012 the Library added 3,838 documents to its online catalogue and responded to 4,431 search requests and other electronic requests for information. It also, as scheduled, worked on the second stage of the Library Digitisation project.

The NBS's Library and Archive also maintained their cooperation with the ECB's Library and Archive and with other ESCB central libraries and archives.

NBS museum of coins and medals in Kremnica[31]

The Museum's most popular exhibits are to be found in the permanent exhibitions: *Two Faces of Money – Money and Medal-Making in the History of Slovakia,* and the exhibition at the Town Castle. The wealth and variety of the Museum's collections includes an abundance of unique items stored in its depositories. These are put on display in long-term thematic exhibitions typically designed to present a certain aspect of the collections. One such exhibition that ran from 2007 to September 2012 was the art-historical exhibition *Routes of Collecting in 15th to 18th Century Art*, subtitled *Private and Public Collecting in Kremnica*.

In 2012 the Museum put on 11 occasional exhibitions in its gallery rooms. They were:

28 http://www.generationeuro.eu
29 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive
30 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive
31 www.muzeumkremnica.sk

- *45 years of the SUPŠ – ŠÚV – SŠÚV* – an exhibition of student works to mark the 45th anniversary of the Private School of Applied Arts in Kremnica (*SŠÚV),* originally known as the Secondary Art Industrial School (SUPŠ) and then as the School of Applied Arts (ŠÚV);
- *From the Danube, Vltava and Vistula – Medallists and Their Works (Od Dunaja, Vltavy a Visly – Medailéri a ich diela)* – to mark the 10th annual running of this international medal exhibition cycle there was a display of medals made by each of the medallists from Visegrad Four countries who participated in the previous nine cycles. The 10th exhibition premiered in Wrocław (Poland), and was then installed in Uherské Hradiště (Czech Republic), Budapest (Hungary), and Kremnica;
- *Kremnica Meetings (Kremnické stretnutia)* – a presentation of works by staff from two institutes of higher education: the Department of Visual Arts at the University of Matej Bel in Banska Bystrica, Slovakia, and the Faculty of Arts at Radom Polytechnic in Poland;
- *Caricaturists (Karikaturisti)* – a regular exhibition held as part of the *European Festival of Humour and Satire – Kremnica Gags,* featuring works by caricaturists nominated for the festival's Golden Gander Award;
- *Bohuš and Monika Kubinski: Sculpture and Painting (Socha a Obraz)* – an exhibition of the eponymous artists' works;
- *Under the Star of Bethlehem (Pod betlehemskou hviezdou)* – a Christmas-themed exhibition featuring historical nativity scenes from Kremnica and the surrounding area, Christmas decorations and postcards, and traditional crafts and customs related to the Christmas holidays;

(the following were held alongside the exhibition *Two Faces of Money*)

- *Dragonflies (Vážky)* – an exhibition organised in cooperation with the company Aqua Vita;
- *Milan Lukáč: Owls – Fish – Grasses (Sovy – Ryby – Trávy)* – an intimate exhibition including sculptures, medals, painting, and graphic art;
- *Eva Harmadyová: Vivus Metallum* – an intimate exhibition of medals and jewellery by this artist;
- *International Symposium of Jewellery Art 2012* – an exhibition of works produced at the 18th annual running of this symposium;
- *95 years of (Czecho)Slovak medal-making in the Kremnica Mint (95 rokov (česko)slovenského medailérstva v kremnickej mincovni)* – an exhibition featuring works from the Fine Art Atelier of the Kremnica Mint and the mint's medal production during the period 1918–2012.

The Museum also cooperated on external exhibitions, including: *On three groschen (O troch grošoch)* at the Children's Museum in Bratislava; *Europa Jagellonica*, an international project with participation from the Czech Republic, Poland, Germany and Slovenia; *Money Route (Cesta peňazí)* at the Tribečské Múzeum in Topoľčany; *16 Spiš towns over the period 1412–1876 (16 spišských miest v rokoch 1412–1876)* at the Spiš Museum in Spišska Nova Ves; *Coin Treasures from Senec and Environs (Poklady mincí zo Senca a okolia)* at the Town Museum in Senec; and *Coin Finds from Banská Štiavnica and Environs (Nálezy mincí z Banskej Štiavnice a okolia)* at the Slovak Mining Museum in Banská Štiavnica.

Some of the exhibitions were held along with educational programmes and workshops for various target groups. In addition, throughout the year, the Museum ran several programmes for school groups, covering various topics related to the history of money, mining and minting in Slovakia and to regional and cultural education.

In 2012 the Museum again took part in the international museum event entitled *"Night of Museums"*, by opening the Town Castle to the public on the evening of 19 May. In the summer the Museum organised guided tours entitled *Summer Day at the Town Castle* (7 July) and *Summer Nights of the Muses* (18 August).

Also in 2012 the Museum put on five concerts, most of which at St Catherine's Church.

Last year the permanent and occasional exhibitions of the NBS Museum of Coins and Medals in Kremnica attracted more than 41,000 visitors from Slovakia and abroad.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2012

12

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Independent Auditors' Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia ('the Bank'), which comprise the balance sheet as at 31 December 2012, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of the National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

19 March 2013
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
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Ing. Dalimil Draganovský
SKAU Licence No.893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B
a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA AS AT 31 DECEMBER 2012

BALANCE SHEET
of Národná banka Slovenska

		Note	31 Dec 2012 EUR ´000	31 Dec 2011 EUR ´000
	ASSETS			
A1	Gold and gold receivables	1	1,284,963	1,239,740
A2	Claims on non-euro area residents denominated in foreign currency	2	622,029	651,913
A3	Claims on euro area residents denominated in foreign currency	3	122,208	267,950
A4	Claims on non-euro area residents denominated in euro	4	2,583,387	3,089,605
A5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1,941,900	1,264,000
A6	Other claims on euro area credit institutions denominated in euro	6	39,548	43,391
A7	Securities of euro area residents denominated in euro	7	9,751,667	12,547,350
A8	General government debt denominated in euro			
A9	Intra-Eurosystem claims	8	1,761,630	1,475,834
A10	Items in course of settlement			97
A11	Other assets	9	6,595,059	6,530,992
A12	Loss of the year	33		76,734
	TOTAL ASSETS		**24,702,391**	**27,187,606**
	LIABILITIES			
L1	Banknotes in circulation	10	8,318,276	8,099,844
L2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	690,643	645,975
L3	Othe liabilities to euro area credit institutions denominated in euro	12	5,634,841	328,816
L4	Credit certificates issued			
L5	Liabilities to other euro area residents denominated in euro	13	2,790,554	160,002
L6	Liabilities to non-euro area residents denominated in euro	14	3,519,406	1,493,748
L7	Liabilities to euro area residents denominated in foreign currency	15	90,304	90,497
L8	Liabilities to non-euro area residents denominated in foreign currency	16	64,970	65,368
L9	Counterpart of special drawing rights allocated by the IMF	17	396,896	404,046
L10	Intra-Eurosystem liabilities			13,600,041
L11	Items in course of settlement			
L12	Other liabilities	18	1,171,826	1,169,028
L13	Provisions	19	257,136	7,743
L14	Revaluation accounts	20	1,210,303	764,701
L15	Capital and reserves	21	357,797	357,797
L16	Profit for the year	33	199,439	
	TOTAL LIABILITIES		**24,702,391**	**27,187,606**

PROFIT AND LOSS ACCOUNT
of Národná banka Slovenska

	Note	31 Dec 2012 EUR ´000	31 Dec 2011 EUR ´000
1.1 Interest income		873,453	980,508
1.2 Interest expense		(428,787)	(673,405)
1 Net interest income	23	**444,666**	**307,103**
2.1 Realised gains arising from financial operations		168,124	115,700
2.2 Write-downs on financial assets and positions		(200,949)	(461,988)
2.3 Transfer to / from provisions for foreign exchange rate, interest rate and gold price risks		(250,000)	
2 Net result of financial operations, write-downs and risk provisions	24	**(282,825)**	**(346,288)**
3.1 Fees and commissions income		1,166	2,830
3.2 Fees and commissions expense		(1,235)	(1,270)
3 Net income / (expense) from fees and commissions	25	**(69)**	**1,560**
4 Income from equity shares and participating interests	26	**7,506**	**9,092**
5 Net result of pooling of monetary income	27	**85,075**	**15,596**
6 Other income	28	**9,531**	**11,023**
Total net income		**263,884**	**(1,914)**
7 Staff costs	29	**(32,587)**	**(33,313)**
8 Administrative expenses	30	**(18,268)**	**(17,797)**
9 Depreciation of tangible and intangible fixed assets	31	**(9,499)**	**(10,342)**
10 Banknote production services	32	**(143)**	**(3,070)**
11 Other expenses	28	**(3,948)**	**(10,298)**
12 Income tax and other government charges on income			
Profit / (Loss)	33	**199,439**	**(76,734)**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska (the National Bank of Slovakia, subsequently the "NBS" or the "Bank") is the independent central bank of the Slovak Republic. The NBS was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (subsequently the "NBS Act"). The NBS commenced its activities on 1 January 1993 as the bank issuing the currency of Slovakia. Upon euro-adoption in Slovakia as at 1 January 2009, the NBS became a full member of the Eurosystem, the euro area central banking system consisting of the European Central Bank (subsequently the "ECB") and the 17 national central banks of the European Union member states with the common euro currency.

The NBS is a legal entity (Corporate ID: 30 844 789) seated at Imricha Karvaša 1, Bratislava. In respect of its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, five branches in Slovakia, and special-purpose organizational units.

Under the NBS Act, the Bank's primary objective is to maintain price stability. For this purpose, the NBS:

- Participates in the common monetary policy determined by the ECB for the euro area;
- Issues euro banknotes and euro coins in accordance with special regulations valid in the euro area;
- Supports the smooth and cost-effective operation of payment services; controls, coordinates and facilitates currency circulation;
- Holds and manages foreign reserves and executes foreign exchange operations; in conducting operations within the Eurosystem, it acts in accordance with the separate legal provisions applicable to Eurosystem operations;
- Performs other activities resulting from its participation in the European System of Central Banks.

In the area of the financial market, the NBS contributes to the stability of the financial system as a whole, as well as to the secure and sound operation of the financial market with the purpose of maintaining its credibility, client protection, and respect for the rules of economic competition. The NBS performs financial market supervision and other activities in the area of the financial market.

The Bank, with the authorization of the Government of Slovakia (subsequently the "Government"), represents Slovakia in international institutions in the area of the financial market and in operations on the international financial markets where it ensures the performance of tasks arising from such representation. Within its supervision of the financial market, the NBS also performs tasks in the area of international cooperation.

The NBS performs its tasks independently of instructions from state authorities, local self-government bodies and other public authorities. Within the scope of its authority, the NBS serves the Government in an advisory capacity.

The supreme governing body of the NBS is the NBS Bank Board (ref. as "Bank Board"). In exercising its powers and authorities under the NBS Act, the Bank Board is required to observe the rules valid for the European System of Central Banks and the rules applicable for the Eurosystem. Following accession to the Eurosystem, the Bank Board primarily:

- Determines the procedural principles followed by the NBS and its organizational units when implementing the common European monetary policy;
- Determines the principles of conduct and the organization of supervision of the financial market;
- Sets guiding principles for the activities and operations of the NBS;
- Approves the budget of the NBS, financial statements of the NBS, annual reports on result of operations and annual reports of the NBS, decides on the use of profits or settlement of losses of the NBS, and sets the types of funds of the NBS and their amount and use;
- Determines the organizational structure of the NBS;
- Sets the amount of annual contributions of supervised entities in the financial market;
- Determines the procedure to be followed by the NBS and its organizational units when issuing euro banknotes and euro coins, including commemorative euro coins and collector euro coins, in accordance with the separate

In 2012, the Bank Board consisted of the following members:

Name	Term of Office in the Bank Board	Current Position	Date of Appointment
doc. Ing. Jozef Makúch, PhD.	1. 1. 2006 – 12. 1. 2015	Governor	12. 1. 2010
Mgr. Ján Tóth, M.A.	5. 11. 2012 – 5. 11. 2017	Deputy Governor	5. 11. 2012
Ing. Viliam Ostrožlík, MBA	1. 3. 2007 – 11. 7. 2012	Deputy Governor	11. 7. 2007
Ing. Štefan Králik	1. 4. 2009 – 1. 4. 2014	Member	1. 4. 2009
RNDr. Karol Mrva	1. 6. 2012 – 1. 6. 2017	Member	1. 6. 2012
Ing. Gabriela Láni Sedláková	1. 6. 2007 – 1. 6. 2012	Member	1. 6. 2007

The term of office of RNDr. Karol Mrva on the Bank Board was terminated on 10 January 2012. From 1 June 2012 he was reappointed to this function again.

legal provisions applicable in the euro area for the issue of euro banknotes and euro coins;
- Approves the generally binding regulations issued by the NBS and bills which the NBS presents or co-presents to the Government;
- Approves draft agreements on mutual assistance, cooperation, and provision of information and supporting documents between the NBS and foreign supervisory authorities in the area of financial markets or between the NBS and public authorities in Slovakia which perform oversight and supervision pursuant to separate regulations.

Pursuant to the amendment to Act No. 492/2009 Coll., the Bank Board should have five members: the Governor, two Deputy Governors, and two other members. Members of the Bank Board are appointed for a term of five years. A person may be reappointed as a member of the Bank Board with the provision that the same person may be appointed as Governor for not more than two consecutive terms of office and as Deputy Governor for not more than two consecutive terms of office. The Governor represents the NBS vis-à-vis third parties.

In accordance with Article 39 (4) of the NBS Act, the financial result of the NBS for a reporting period is the profit it generated or loss it incurred. The profit generated by the Bank is allocated to the reserve fund and other funds created from profit, or it is used to cover accumulated losses from prior years. Any loss incurred in the current reporting period may be settled by the NBS from the reserve fund or from other funds; alternatively, the Bank Board may decide to carry the accumulated loss forward to the following reporting period.

The NBS submits the annual report on result of its operations to the National Council of the Slovak Republic within three months after the end of the calendar year. In addition to the NBS financial statements and the auditor's opinion thereon, the report provides information on the NBS's operating costs. If so requested by the National Council of the Slovak Republic, the NBS is obliged, within six weeks, to supplement the report as requested and/or to provide explanations to the report as submitted.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Basis for Preparation of the Financial Statements

The Bank applies its accounting principles in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2010/20, as amended (subsequently the "ECB Guideline"). In recognizing transactions not regulated by the ECB Guideline, the Bank observes the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and in line with the interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Commission pursuant to the Directive of the European Parliament and the Council of the European Union. In other cases, the Bank acts in accordance with Act No. 431/2002 Coll. on Accounting, as amended (subsequently the "Act on Accounting").

In accordance with the ECB Guideline, the Bank applies the following basic accounting principles: the principle of economic reality and transparency, the principle of prudence, the recognition of post-balance-sheet events, the principle of materiality, the accruals principle, the going-concern basis, and the principle of consistency and comparability. Income and expenses are recognized in the accounting period in which they are earned or incurred.

Other accounting principles are detailed in the individual sections of the financial statements. When preparing the financial statements, the Bank acts in accordance with the recommended harmonized procedures for the preparation of disclosures to the financial statements of a national central bank within the Eurosystem.

b) Transaction Date

Foreign exchange transactions, financial instruments denominated in local and foreign currency, excluding securities, are subject to the economic principle, i.e. transactions are recorded on off-balance sheet accounts on the trade date.

On the settlement date, off-balance sheet booking entries are reversed and the transactions are recorded on the balance sheet accounts in the Bank's assets and liabilities.

Other economic transactions, including transactions with debt securities, are recorded in accordance with the cash/settlement principle, i.e. no accounting entries are made on the trade date and the transaction is recorded on the settlement date.

(c) Methods for Valuing Assets and Liabilities in foreign currency

Over the course of the year, assets (including gold) and liabilities denominated in foreign currency are valued at the average cost of the currency on a daily basis. Foreign exchange differences arising on the daily valuation from movements in assets and liabilities are recognized in the profit and loss account. As at the month-end, assets and liabilities are valued at the reference exchange rate announced by the ECB, with the exception of XDR. In the case of XDR, the ECB determines the exchange rate only on a quarterly basis. Over the course of any three-month period, assets and liabilities in XDR are valued at the market price. The difference between the reference exchange rate or the market price and the rate used in the accounting books (the average cost of the currency) represents unrealized foreign exchange gains or losses, which are recognized on the revaluation accounts in equity over the course of the year. At the year-end, any unrealized foreign exchange losses exceeding unrealized foreign exchange gains of the respective currency are recognized in the profit and loss account and any unrealized foreign exchange gains remain recognized on the revaluation accounts in equity.

Foreign exchange spot transactions and currency forwards recorded on the off-balance sheet accounts from the agreed trade date affect the net foreign currency position for calculating the average cost of the currency. For foreign exchange swaps, the currency position is only affected by the accrued interest expense and income (the difference between the spot and forward rates), which is accrued on the balance sheet on a daily basis. For the valuation of these off-balance sheet instruments, the same principle applies as for the valuation of balance-sheet instruments.

Each currency is valued separately. Foreign exchange losses in one currency are not netted with foreign exchange gains in other currencies.

The foreign exchange rates of key foreign currencies against EUR 1 used to value the assets and liabilities as at 31 December 2012, were as follows:

Currency	31 Dec 2012	31 Dec 2011
GBP	0.81610	0.83530
USD	1.31940	1.29390
JPY	113.61000	100.20000
XDR	0.85785	0.84267
EUR/t oz*	1,261.179	1,216.864

* t oz (troy ounce) = 31.1034807 g

(d) Gold and Gold Receivables

In accordance with the ECB Guideline, gold is treated as a foreign currency. No distinction is made between price and currency revaluation differences. Gold is valued on a daily basis at the average price of the currency (gold). On a monthly basis, gold is measured at the market value, which is the London gold morning fixing in USD/t oz (troy ounce) translated at the EUR/USD exchange rate valid as at the revaluation date.

Gold swap transactions are recognized as repurchase transactions with gold (see Notes 12, 14, 15 and 16). The gold used in such transactions remains in the Bank's total assets under the item "Gold".

(e) Debt Securities

Debt securities are initially recognized at acquisition cost. From the date following the purchase date to the sale or maturity of the security (including the sale or maturity date), the Bank amortizes the premium or the discount on a daily basis (the difference between the cost and nominal value). The effective interest rate (subsequently "EIR") method is applied to the calculation of the amortized premium/discount.

In the event of the acquisition of debt securities with a coupon, the amount of the purchased coupon is considered as a separate item. From the date following the settlement date to the sale or maturity of the coupon (including the sale or maturity date), the interest income from the coupon is accrued. The straight-line method is applied to coupon accruals.

Debt securities, except for held-to-maturity securities acquired as part of the single monetary policy, are valued on a monthly basis at the mid-market price on an individual basis, i.e. separately, based on the same ISIN number. The valuation difference is the difference between the mid-market price and the average cost net of the amortized discount/premium recognized in the accounting books. Over the year, valuation differences are recognized in equity. As at the year-end, gains on valuation are recognized in equity and losses on valuation are recognized in the Bank's profit and loss account.

The mid-market price of debt securities for which an active market exists is derived from the mid-market price on the market. If no mid-market price is available, the price is determined by a qualified estimate.

Upon the sale of a security, the difference between the average cost adjusted for the amortized discount/premium and the selling price is the gain or loss realized on the sale (market effect), which is recognized in the Bank's profit and loss account.

Debt securities acquired under the Securities Markets Programme (subsequently "SMP") and covered bonds acquired under the Covered Bonds Purchase Programme (subsequently "CBPP") as part of the common monetary policy are held to maturity and at purchase are valued at acquisition cost and then at amortized cost. As at the balance sheet date, the Bank assesses whether there is any objective evidence of their impairment. Loss on impairment is calculated as the difference between the carrying amount of the debt security as at the last calendar date of the year and the present value of the estimated future cash flows discounted by the original interest rate. In the event of impairment, a provision is created at the last calendar date of the year, which is subsequently reassessed annually.

The impairment test for bonds acquired under the SMP is performed by the ECB on a centralized basis and is subject to approval of the ECB Governing Council. Under Article 32.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (subsequently the "Statute"), any losses arising from ownership of securities acquired under the SMP are shared by the Eurosystem central banks based on their share in the ECB's paid-up capital existing at the time of the initial impairment.

The impairment test for bonds acquired under the CBPP is coordinated by the ECB. By a decision of the Bank Board, the NBS accepts the results of the coordinated test.

Debt securities are disclosed with the amortized premium/discount. Coupons are reported under "Other assets".

(f) Derivatives

Currency swap transactions are recorded on the off-balance sheet accounts from the agreed trade date to the value date. On the settlement date of a spot / forward part of the transaction, the accounting entries on off-balance sheet accounts are reversed and the transactions are recorded on the balance sheet accounts. The difference between the spot and forward values of the transaction is considered as interest expense or interest income. Interest is accrued on a daily basis using the linear method from the date following the value date to the swap maturity date.

In the case of interest rate swaps, the nominal value is recorded on the off-balance sheet from the trade date to the interest rate swap maturity date. The straight-line method is applied to interest accruals. The interest is recognized on a daily basis from the date following the value date or the interest maturity date to the next interest maturity or the swap maturity date. Interest rate swaps are valued individually at market prices on a monthly basis. During the reporting period, the valuation difference, which is the difference between the market price and the carrying amount, is recognized in equity. As at the year-end, gains on valuation are recognized in equity on the Bank's balance sheet and losses on valuation are recognized in the Bank's profit and loss account. Losses are amortized in subsequent years up to the maturity of the interest rate swap.

The difference between the market price of the put options purchased and the call options relating to long-term gold swaps in years 2005 and 2006, accounted as repo transactions with gold (ref. to part B, notes d and h) affected the amount of the loan received on the transaction date. This difference is accrued daily in expenses using the EIR method.

Regarding swaps, if there is an increase or a decrease in the net swap position, a collateral adjustment in the form of deposits with daily prolongation is agreed upon contractually with selected counterparties. Payment of interest is on a monthly basis (see Notes 9 and 18).

The Bank also deals in interest rate futures. Initial margins to interest rate futures are deposited in cash. Futures contracts are revalued daily on market prices into the profit and loss account.

(g) Receivables

Receivables are recognized on the balance sheet at their nominal value increased for accrued interest. Receivables are net of provisions for impairment losses. The creation and release of provisions for impairment losses is recorded in the profit and loss account.

Observing the prudence principle, the Bank assesses the risk of receivables, categorizes them, and recognizes provisions for receivables.

Receivables are written off into expenses on the basis of a court ruling on their non-recoverability or based on the Bank Board's decision. Any related provisions are released to expenses.

(h) Reverse Transactions

Transactions conducted under a repurchase agreement (repurchase transaction) are recognized as a collateralized inward deposit on the liabilities side of the balance sheet, while the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repurchase transaction remain part of the portfolio of the Bank.

Transactions conducted under a reverse repurchase agreement (reverse repurchase transactions) are recognized as a collateralized outward loan on the assets side of the balance sheet. Securities accepted under a reverse repurchase transaction are not accounted for.

If the collateral value deviates from the respective loan value, representing an increased counterparty credit risk, collateral is required in the form of a deposit. These deposits bear interest and are prolonged on a daily basis (see Notes 12 and 14).

Collateralized gold transactions are treated as repurchase agreements.

The Bank also performs Tri-party repurchase transactions, with a third party entering the relationship between the NBS and a partner bank.

The Bank does not account for security lending transactions conducted under an automated security lending programme. Revenues from these transactions are recognized in the profit and loss account.

(i) Receivables from / Payables to the International Monetary Fund

Receivables from and payables to the International Monetary Fund (subsequently the "IMF") are disclosed on a net basis, i.e. receivables and payables are netted.

The payable from the allocation is disclosed under L9 "Counterpart of special drawing rights allocated by the IMF".

(j) Intra-Eurosystem Claims and Liabilities

Intra-Eurosystem claims and liabilities represent the position of the NBS towards other members of the European System of Central Banks (subsequently the "ESCB") from cross-border transactions.

(k) Participating Interests

The Bank records a participating interest in the ECB. In accordance with the Statute, the amount of the total capital share of the individual national central banks depends on the capital key determined on the basis of the following statistical categories: GDP and population. In accordance with the Statute, the capital key is adjusted on a five-year basis or upon the accession of new members to the ESCB. The capital key was adjusted most recently as at 1 January 2009 and for the NBS represents 0.6934%. The latest adjustment to the participating interests of the central banks in the capital of the ECB was realized pursuant to Decision ECB/2010/26 and Decision ECB/2010/27 on the increase of the European Central Bank's capital with effect from 29 December 2010 (see Note 8).

In accordance with the Commercial Code (Act No. 513/1991 Coll. as amended), the NBS is the controlling entity with a majority share in the voting rights in RVS, a.s. Bratislava with a 52.33% equity share. The equity share of RVS, a.s. Bratislava is measured at cost.

The Bank recognizes an equity share in the Bank for International Settlements in Basel, Switzerland (subsequently the "BIS") with an equity share of 0.51%. The equity shares in the BIS are measured at cost. The participating interest in the BIS is recognized in the amount of the share paid (25%). The outstanding portion (75%) is payable on demand. Dividends are paid in euro on the NBS's total share in the BIS maintained in XDR.

The NBS recognizes a capital share in Inštitút bankového vzdelávania NBS, n.o. Bratislava, which the Bank established on 28 October 2008. The capital share of NBS represents 100% and is valued at cost.

The Bank recognized 7 shares of the company SWIFT amounting to EUR 23 thousand allocated to the Bank in April 2012. Allocation took place based on the shares reallocation to individual members according to their financial payments resulting from SWIFT usage services in 2011. Shares are valued at cost.

(l) Monetary Income

Under Article 32(1) of the Statute and Decision ECB/2010/23 on the allocation of monetary income of the national central banks of participating member states, as amended, monetary income represents net annual income derived from the assets of a national central bank held against banknotes in circulation and deposit liabilities of credit institutions.

The amount of monetary income of each central bank in the Eurosystem is derived from the actual income on earnmarkable assets adjusted by interest expense from the liability base. Earmarkable assets largely consist of gold, lending to euro area credit institutions related to monetary policy operations denominated in euro, securities held for monetary policy purposes, and intra-Eurosystem claims from the allocation of euro banknotes. The liability base largely consists of banknotes in circulation, liabilities to euro area credit institutions related to monetary policy operations denominated in euro and liabilities resulting from transactions in Trans-European Automated Real-Time Gross settlement Express Transfer system 2 (ref. as "TARGET2").

Monetary income is allocated at the end of each financial year in proportion to the NBS's paid-up share in the capital of the ECB (0.9910%). The subsequent transfer of financial means is performed through the TARGET 2 payment system by the end of January of the following calendar year (see Note 27).

By decision of the ECB Governing Council, the ECB loss can be settled from the monetary income of the respective financial year.

(m) Issue of Banknotes

Pursuant to Decision ECB/2010/29 on the issue of euro banknotes, euro banknotes are issued jointly by the national central banks within the Eurosystem and the ECB. The total amount of banknotes in circulation is allocated to individual central banks in the Eurosystem on the last working day of each month, according to the Banknote Allocation Key. The ECB's share in the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS's share in the total issue of euro banknotes within the Eurosystem is 0.9115%. The share in banknotes in circulation is recognized under liabilities "Banknotes in Circulation" (see Note 10).

The difference between the banknotes allocated according to the Banknote Allocation Key and the banknotes actually in circulation represents an interest-bearing receivable or liability within the Eurosystem. This is disclosed under the item "Net Claims Related to Allocation of Euro Banknotes within the Eurosystem" (see Note 8).

Over a period of five years from the Bank's transition to euro as cash (1 January 2009), receivables or liabilities relating to the allocation of euro banknotes within the Eurosystem are adjusted in order to eliminate major changes in the yield position of the Bank compared to prior years. The adjustment is based on the average issue of banknotes of the local currency two years prior to accession to the Eurosystem. For the NBS, the period of adjusting banknotes issue ends on 31 December 2014.

Interest income or interest expense from these receivables/liabilities is disclosed in the Bank's profit and loss account under the item "Net Interest Income" (see Note 23).

(n) ECB Profit Redistribution

In accordance with Decision ECB/2010/24 of 25 November 2010, the ECB's income, consisting of the ECB's 8% share in euro banknotes issue and net income from securities purchased by the ECB under the SMP, is re-allocated among the Eurosystem's individual central banks in the same financial year as accrued in the form of an interim distribution of the ECB's profit.

The ECB Governing Council decides on the amount of the interim distributed profit prior to the end of the calendar year, whereas the amount cannot exceed the ECB's net profit for that year. At the same time, the ECB Governing Council may decide to transfer all or part of the ECB's profit to reserves for credit, exchange rate, interest rate and gold price risks.

The ECB's remaining net profit is re-allocated among the central banks within the Eurosystem upon approval of the ECB's financial statements, i.e. in the following calendar year. Under Article 33 of the Statute, transfers from the net earned profit of the ECB are made first to the general reserve fund of the ECB (which may not exceed 20% of the net profit, subject to a limit equal to 100% of the capital). The remaining net profit is redistributed to the national central banks within the Eurosystem in proportion to their paid-up shares in the capital of the ECB.

In the event of the ECB incurring a loss, the shortfall may be offset against the ECB's general reserve fund and, if necessary, following a decision by the ECB Governing Council, against the monetary income of the respective financial year in proportion and up to the amounts allocated to the national central banks within the Eurosystem, in accordance with Article 32.5 of the Statute.

(o) Fixed Assets

With effect from 1 January 2010 and pursuant to the ECB's Guideline, the NBS's fixed assets include tangible fixed assets and intangible fixed assets with an initial cost higher than EUR 10,000 and with a useful life of more than one year. Immovables, works of art, immovable historic landmarks and collections with the exception of those listed under separate regulations (e.g. Act No. 206/2009 Coll. on Museums and Galleries and on the Protection of Cultural Valuables) are recognized on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognized on the off-balance sheet and in records maintained for collection items at acquisition cost. Tangible and intangible fixed assets up to EUR 10,000 that were acquired and put in use prior to 1 January 2010 are depreciated as put in use until they are fully depreciated.

On the balance sheet, tangible and intangible fixed assets are recognized at cost including incidental expenses; depreciated fixed assets are net of accumulated depreciation. Land, works of art, immovable historic landmarks, collections and tangible and intangible assets under construction or in progress are not depreciated.

Tangible and intangible fixed assets of the NBS are depreciated/ amortized on a linear basis and are included in the individual depreciation groups as follows:

Depreciation Group	Depreciation period in years
1. Buildings and structures	30 4 – 12[1)]
2. Utility network	20
3. Plant and equipment	4 – 12
4. Transport means	4 – 6
5. Fillings and fixtures	4 – 12
6. Software	2 – 4
7. Other intangible fixed assets	2 – 4 or as per contract
8. Fixed property investments	30
9. Technical improvements or immovable historic landmarks	30

1) asset components

(p) Fixed Assets Held for Sale

Fixed assets available for sale include land and structures that are available for sale in their current condition, where the sale is regarded as highly probable. These assets are not depreciated.

Assets classified as fixed assets available for sale are disclosed at whichever is the lower of cost less accumulated depreciation and provisions or fair value less costs of sale.

(r) Provisions

The Bank recognizes provisions if it has a present liability as a result of past events and it is probable that an outflow of financial resources will be required to settle the liability, and the amount of the liability may be reliably estimated.

Further, in accordance with Decision ECB/2012/29 amending the Decision ECB, the Bank can create general provision for foreign exchange rate, interest rate, credit and gold price risks (see Note 19 and 24).

General provision for foreign exchange rate, interest rate, credit and gold price risks is presented as a part of the Bank's equity and it's movements in the profit and loss account.

The Bank creates a provision in relation to the impairment of securities acquired as part of the single monetary policy of the Eurosystem (see Section B, Note e).

(s) Cost of Employee Benefits

The NBS makes regular payments on behalf of its employees to health insurance companies for health insurance and to the Social Insurance Company for sickness, retirement, accident, guarantee and unemployment insurance and a contribution to the Guarantee Fund. Contributions are made in the amounts required by law in the respective year. The Bank also pays a contribution for not employing the obligatory percentage of persons with a disability, as stipulated in the Employment Act.

In association with supplementary pension management companies, the NBS has established a supplementary pension scheme for its employees.

The Bank also creates a provision for employee benefits in accordance with the statutory and other requirements.

(t) Taxation

The NBS is liable to corporate income tax. In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes as amended, only income taxed by withholding tax is subject to taxation.

The NBS has been a registered VAT payer since 1 July 2004 pursuant to Act No. 222/2004 Coll., as amended.

The NBS is a payer of broadcasting fees pursuant to the full wording of Act No. 68/2008 Coll. on Payments for Public Services Provided by Slovak Television and Slovak Radio, and a payer of local taxes from real estate, motor vehicles as well as local taxes for accommodation, municipal waste and air pollution pursuant to Act No. 582/2004 on Local Taxes and Local Charges for Municipal and Minor Construction Waste, as amended.

(u) Off-Balance Sheet Instruments

Forward and spot purchases and sales are recognized on off-balance sheet accounts from the trade date to the settlement date at the spot rate of the transaction. On the settlement date, the off-balance sheet booking entries are reversed and the transactions are recorded on the balance sheet accounts.

Futures are recognized by the Bank on the off-balance sheet accounts from the trade date to the settlement date at the price of the underlying instrument. Valuation of the underlying instruments does not affect the net foreign currency position for calculating the average cost of the currency.

C. NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ITEMS

1. Gold and Gold Receivables

EUR '000	31 Dec 2012	31 Dec 2011
Bars in standard form	1,282,979	1,237,826
Gold in other form	1,984	1,914
	1,284,963	**1,239,740**

As at 31 December 2012, gold comprises a total of 1,019 thousand t oz. of gold (1,019 thousand t oz. of gold as at 31 December 2011), of which 935 thousand t oz. of gold are used in repurchase transactions, 82 thousand t oz. are deposited in correspondent banks and 2 thousand t oz. of gold are deposited with the Bank. The value of gold provided as collateral in gold repurchase transactions at 31 December 2012 amounted to EUR 1,178,949 thousand (EUR 1,076,809 thousand as at 31 December 2011).

The market value of gold as at 31 December 2012 was EUR 1,261.179 per t oz. (EUR 1,216.864 per t oz as at 31 December 2011). As at 31 December 2012, the balance of the gold revaluation accounts represented gains of EUR 651,733 thousand (EUR 606,583 thousand as at 31 December 2011).

2. Claims on Non-Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2012	31 Dec 2011
Receivables from / payables to the IMF	607,726	604,565
Balance with banks and security investments, external loans and other external assets	14,303	47,348
	622,029	**651,913**

Receivables from / Payables to the International Monetary Fund

Receivables from the IMF consist of the quota of Slovakia in the IMF, nostro account in the IMF and bilateral loans granted.

As at 31 December 2012, the Bank recognized a total reserve position against the IMF of XDR 141 million, equal to EUR 164,375 thousand (EUR 157,724 thousand as at 31 December 2011). This position is created by a part of the quota in foreign currency amounting to XDR 18 million and the reserve position in respect of the Financial Transactions Plan (subsequently "FTP") amounting to XDR 123 million. FTP represents the receivable of NBS relating to provided IMF loans.

The balance of the nostro account in the IMF in XDR, as at 31 December 2012, was XDR 326 million, equaling EUR 380,485 thousand (EUR 385,453 thousand as at 31 December 2011).

In accordance with the agreement with the IMF, the Slovak Republic granted bilateral loans amounting to XDR 54 million to selected countries, equaling EUR 62,866 thousand (EUR 61,388 thousand as at 31 December 2011). In granting the loans, the NBS records a receivable from the IMF which bears an IMF interest rate.

Liabilities to the IMF represent financial funds of the IMF deposited in IMF loro accounts with the NBS in the amount of EUR 336,107 thousand (EUR 320,519 thousand as at 31 December 2011). Liabilities in local currency change depending on the IMF representative exchange rate, which is recorded in the currency valuation adjustment account. A significant part of the liabilities consists of a note in the amount of EUR 332,417 thousand (EUR 317,293 thousand as at 31 December 2011).

Receivables from / Payables to the International Monetary Fund

	31 Dec 12		31 Dec 11	
	Equivalent in XDR mil.	EUR ´000	Equivalent in XDR mil.	EUR ´000
Receivables from IMF	**808**	**941,732**	**805**	**954,115**
1) Quota	428	498,381	428	507,274
– Quota in local currency	287	334,006	295	349,550
– FTP reserve position	141	164,375	133	157,724
2) Nostro account in IMF	326	380,485	325	385,453
3) Bilateral lending	54	62,866	52	61,388
Liabilities to IMF	**287**	**334,006**	**295**	**349,550**
1) IMF loro accounts	289	336,107	270	320,519
2) Currency Valuation Adjustment account	(2)	(2,101)	25	29,031
Total (net)		**607,726**		**604,565**

The Bank records a liability to the IMF from the allocation recorded under L9 "Counterpart of special drawing rights allocated by the IMF" (see Note 17).

Balance with Banks and Security Investments, External Loans and Other External Assets

EUR '000	31 Dec 2012	31 Dec 2011
Debt securities	2,618	33,374
Other	11,685	13,974
	14,303	**47,348**

Debt securities recognized as at 31 December 2012, categorized in this caption, are denominated in US dollars. As for the security issuers, they are financial intermediary securities.

As at 31 December 2012, "Other" mainly included cash in foreign currency in nostro accounts and term deposits of non-euro area residents.

3. Claims on Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2012	31 Dec 2011
Debt securities	122,026	108,155
Current accounts	182	5,224
Receivables from reverse transactions		154,571
	122,208	**267,950**

Debt securities categorized under this caption are denominated in US dollars. As per security issuers, as at 31 December 2012 the Bank recorded mainly securities of financial institutions.

4. Claims on Non-Euro Area Residents Denominated in Euro

As at 31 December 2012, within this category the Bank recognized debt securities of non-euro area residents of EUR 2,583,387 thousand (EUR 3,089,605 thousand as at 31 December 2011). As for the security issuers, the Bank mainly recorded securities issued by monetary financial institutions.

5. Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS recognizes longer-term refinancing operations of EUR 1,941,900 thousand as at 31 December 2012 (EUR 1,264,000 thousand as at 31 December 2011.

Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; as at 31 December 2012, transactions with a maturity of three years were recognized. These transactions are performed through standard tenders.

6. Other Claims on Euro Area Credit Institutions Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Redistribution loan	36,673	42,220
Current accounts	1,061	1,171
Deposits to reverse transactions	1,814	
	39,548	**43,391**

A discounted rate redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. As at 31 December 2012, the redistribution loan bore interest of 0.5% p.a. (0.5% p.a. as at 31 December 2011).

As at 31 December 2012, the NBS recorded a state guarantee of EUR 38,341 thousand received for the redistribution loan on the off-balance sheet (EUR 44,237 thousand as at 31 December 2011). The amount of the state guarantee represents the principal and interest up to maturity.

7. Securities of Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Debt securities held for monetary policy purposes	2,211,160	2,416,086
Other securities	7,540,507	10,131,264
	9,751,667	**12,547,350**

Debt Securities Held for Monetary Policy Purposes

As at 31 December 2012, under the "Securities held for monetary policy purposes" caption, the Bank disclosed securities purchased under the SMP of EUR 1,720,521 thousand (EUR 1,863,689 thousand as at 31 December 2011) and secured bonds amounting to EUR 490,639 thousand (EUR 552,397 thousand as at 31 December 2011) purchased within the program CBPP. These securities are part of common monetary policy held to maturity and are subject to periodic impairment tests. They were issued mainly by public authorities and monetary financial institutions of the euro area.

The total amount of SMP securities in the Eurozone as at 31 December 2012 was EUR 192,608,054 thousand. In accordance with Article 32.4 of the Statute are all risks, if material, shared by NCB of Eurozone according to capital key.

On the basis of the result of the impairment test for securities acquired under the SMP, conducted as at 31 December 2012, and pursuant to a decision of the Governing Council of ECB, it is expected that all future cash flows related to these securities will be received. For this reason, the Bank did not create a provision for impairment (see Section B, Note e).

On the basis of the results of the impairment test for securities acquired under the CBPP, as coordinated by the ECB, the Bank Board decided that it was not necessary to create a provision for impairment losses (refer to Section B, Note e).

Other Securities
As at 31 December 2012, the Bank recognized trading securities issued by monetary financial institutions and public authorities of the euro area under this item.

As at 31 December 2012, under the item referred to above, the Bank recorded securities issued by the Government of the Slovak Republic of EUR 208,450 thousand (EUR 44,395 thousand as at 31 December 2011). The securities were purchased in compliance with the rules as defined in Article 123 of the Treaty on the European Union and Article 21 of the Statute.

8. Intra-Eurosystem Claims

EUR '000	31 Dec 2012	31 Dec 2011
Participating interest in ECB	228,828	217,272
Claims equivalent to the transfer of foreign reserves	399,444	399,444
Net claims related to the allocation of euro banknotes within the Eurosystem	155,444	859,118
Other claims within the Eurosystem	977,914	
	1,761,630	**1,475,834**

Participating Interest in ECB
As at 31 December 2012, the Bank recorded a participating interest in the ECB's capital of EUR 74,614 thousand (EUR 63,058 thousand as at 31 December 2011). In accordance with Article 49(1) of the Statute and under Decisions ECB/2010/26 and ECB/2010/27 on the increase and the paying-up of the ECB's capital, with effect from 29 December 2010, the NBS's share in the ECB's capital was adjusted from EUR 39,944 thousand to EUR 74,614 thousand. On 27 December 2012 the NBS paid the last of three equal installments of EUR 11,556 thousand.

In accordance with Article 49(2) of the Statute and the decision of the ECB Governing Council, the NBS contributed EUR 154,214 thousand to the ECB's provisions to cover credit, foreign exchange, interest rate and gold price risks and to the ECB revaluation accounts.

Claims Equivalent to the Transfer of Foreign Reserves
The NBS recognizes a claim of EUR 399,444 thousand, equivalent to the transfer of foreign reserves to the ECB, made according to the NBS capital key under Article 30(1) of the Statute. The receivable bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2012, interest income from the claim equivalent to the transfer of foreign reserves amounted to EUR 3,042 thousand (see Note 23).

Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem
The item represents a claim related to the application of the banknote allocation key, which amounted to EUR 155,444 thousand as at 31 December 2012 (EUR 859,118 thousand as at 31 December 2011). The claim bears interest at the interest rate for the main refinancing operations.

Other claims within the Eurosystem
The most significant part of this item represents NBS claim against TARGET2 which amounted to EUR 887,155 thousand as at 31 December 2012, (as at 31 December 2011 this item was included in claims within Eurosystem amounting to EUR 13,622,088 – see part B, note j). The position bears an interest rate for the main refinancing operations. Until 14 November 2012, the NBS recognized the position TARGET2 in liabilities, due to this fact the total amount of paid inter-

est amounted to EUR 49,481 thousand as at 31 December 2012 (see note 23).

Other significant parts in Other claims within the Eurosystem are claims from monetary income including the correction from previous years amounting to EUR 85,075 thousand and participating interest in the ECB`s net profit for year 2012 amounting to EUR 5,694 thousand (see Notes 26 and 27).

Participating interests of the 27 central banks of the European Union in the capital of the ECB as at 31 December 2012:

	Capital Key for Subscription of ECB`s Capital (%)	Subsrcibed Share in Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key (%)
Banque National de Belgique	2.4256	261,010,384.68	261,010,384.68	3.4666
Eesti Pank	0.1790	19,261,567.80	19,261,567.80	0.2558
Deutsche Bundesbank	18.9373	2,037,777,027.43	2,037,777,027.43	27.0647
Central Bank and Financial Services Authority of Ireland	1.1107	119,518,566.24	119,518,566.24	1.5874
Bank of Greece	1.9649	211,436,059.06	211,436,059.06	2.8082
Banco de España	8.3040	893,564,575.51	893,564,575.51	11.8679
Banque de France	14.2212	1,530,293,899.48	1,530,293,899.48	20.3246
Banca d'Italia	12.4966	1,344,715,688.14	1,344,715,688.14	17.8598
Central Bank of Cyprus	0.1369	14,731,333.14	14,731,333.14	0.1957
Banque centrale du Luxembourg	0.1747	18,798,859.75	18,798,859.75	0.2497
Central Bank of Malta	0.0632	6,800,732.32	6,800,732.32	0.0903
De Nederlandsche Bank	3.9882	429,156,339.12	429,156,339.12	5.6998
Oesterreichische Nationalbank	1.9417	208,939,587.70	208,939,587.70	2.7750
Banco de Portugal	1.7504	188,354,459.65	188,354,459.65	2.5016
Banka Slovenije	0.3288	35,381,025.10	35,381,025.10	0.4699
Národná banka Slovenska	**0.6934**	**74,614,363.76**	**74,614,363.76**	**0.9910**
Suomen Pankki – Finlands Bank	1.2539	134,927,820.48	134,927,820.48	1.7920
*Subtotal euro-area NCBs**	*69.9705*	*7,529,282,289.35*	*7,529,282,289.33*	*100.00*
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,026.77	3,505,013.50	
Česká národní banka	1.4472	155,728,161.57	5,839,806.06	
Danmarks Nationalbank	1.4835	159,634,278.39	5,986,285.44	
Latvijas Banka	0.2837	30,527,970.87	1,144,798.91	
Lietuvos bankas	0.4256	45,797,336.63	1,717,400.12	
Magyar Nemzeti Bank	1.3856	149,099,599.69	5,591,234.99	
Narodowy Bank Polski	4.8954	526,776,977.72	19,754,136.66	
Banca Naţională a României	2.4645	265,196,278.46	9,944,860.44	
Sveriges Riksbank	2.2582	242,997,052.56	9,112,389.47	
Bank of England	14.5172	1,562,145,430.59	58,580,453.65	
*Subtotal non-euro area NCBs**	*30.0295*	*3,231,370,113.23*	121,176,379.25	
Total*	**100.00**	**10,760,652,402.58**	**7,650,458,668.58**	

**Subtotals and totals may not correspond, due to the effect of rounding.*

9. Other Assets

EUR '000	31 Dec 2012	31 Dec 2011
Tangible and intangible fixed assets	148,753	154,779
Other financial assets	10,521	10,622
Off-balance-sheet instruments revaluation differences	4,203	
Accruals and prepaid expenses	263,801	378,790
Accumulated losses from previous years	5,605,892	5,529,158
Sundry	561,889	457,643
	6,595,059	**6,530,992**

Tangible and Intangible Fixed Assets

This item comprises fixed assets of the NBS. The balance of tangible and intangible fixed assets (subsequently "TA" and "IA") as at 31 December 2012 was as follows:

Tangible and Intangible Fixed Assets

EUR '000	TA & advances and assets under construction	IA & advances and assets under construction	TOTAL
Acquisition cost as at 1 January 2012	**266,564**	**27,498**	**294,062**
Additions	5,026	1,785	6,811
Disposals	4,416	765	5,181
Acquisition cost as at 31 December 2012	**267,174**	**28,518**	**295,692**
Accumulated depreciation as at 1 January 2012	**123,378**	**20,781**	**144,159**
Additions	6,866	2,633	9,499
Disposals	1,512	2	1,514
Accumulated depreciation and provisions as at 31 December 2012	**128,732**	**23,412**	**152,144**
Carrying amount of TA and IA as at 1 January 2012	**143,186**	**6,717**	**149,903**
Carrying amount of TA and IA as at 31 December 2012	**138,442**	**5,106**	**143,548**

As at 31 December 2012, the NBS recognized fixed assets held for sale of EUR 5,205 thousand (EUR 4,876 thousand as at 31 December 2011).

Other Financial Assets

As at 31 December 2012 and 2011, the Bank owned 1,080 shares of RVS, a.s. in the value of EUR 3,585 thousand which represents 52.33% of the company's capital. Despite the significant influence of NBS in RVS, a.s., in accordance with Article 22 of Act on Accounting, the Bank does not prepare consolidated financial statements.

As at 31 December 2012 and 2011 Bank owned 2,858 shares of BIS in the value of EUR 19,373 thousand (EUR 19,722 thousand in 2011) what represents 0.51% of the company's capital. The investment value presented in the financial statements of EUR 6,880 thousand represents 25% of the paid up capital (EUR 7,004 thousand in 2011). The liability from the remaining unpaid capital i.e. 75% of the owned share's face value amounted to EUR 12,493 thousand as at 31 December 2012 (EUR 12,718 thousand as at 31 December 2011) and is payable on demand.

As at 31 December 2012, the Bank recognizes the investment into the Inštitút bankového vzdelávania NBS, n. o. Bratislava in the amount of EUR 33 thousand (EUR 33 thousand as at 31 December 2011). The Bank is the only shareholder of the company.

As a result of the SWIFT shares reallocation in April 2012, 7 shares in SWIFT were allocated to the Bank in the amount of EUR 23 thousand as at 31 December 2012. The Bank is entitled neither to trade nor to sell these shares.

Accruals and Prepaid Expenses

This item mainly represents accrued bond coupons of EUR 210,287 thousand (EUR 235,827 thousand as at 31 December 2011) and interest accrued on interest rate swaps of EUR 20,787 thousand (EUR 78,927 thousand as at 31 December 2011).

Sundry

EUR '000	31 Dec 2012	31 Dec 2011
Deposits – collaterals to derivatives	521,500	421,900
Interest rate swaps	19,664	16,300
Interest rate futures	7,094	5,967
Investment and consumer loans granted to employees	10,503	10,726
Other	3,128	2,750
	561,889	**457,643**

The purpose of the deposits granted – collaterals to derivatives – is to secure counterparty credit risk in respect of a decrease in the value of the swap on the part of the NBS (see Section B, Note f).

10. Banknotes in Circulation

The total volume of euro banknotes issued by the Eurosystem central banks is redistributed on the last day of each month in accordance with the Banknote Allocation Key (see Section B, Note m). The total of euro banknotes according to the Banknote Allocation Key attributable to NBS as at 31 December 2012 amounted to EUR 8,318,276 thousand (EUR 8,099,844 thousand as at 31 December 2011). Euro banknotes actually issued by the NBS as at 31 December 2012 amounted to EUR 8,162,832 thousand (EUR 7,240,726 thousand as at 31 December 2011). As at 31 December 2012, the difference between the euro banknotes actually issued and the euro banknotes attributable to the NBS according to the Banknote Allocation Key (see Note 8) represents a receivable for the NBS of EUR 155,444 thousand (EUR 859,118 thousand as at 31 December 2011).

11. Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Current accounts covering the minimum reserve system	634,343	217,174
Deposit facility	56,300	428,801
	690,643	**645,975**

As at 31 December 2012, current accounts represented monetary reserves of credit institutions that are subject to the minimum reserve system (subsequently the "MRS") in accordance with the Statute. The MRS enables the average fulfillment of monetary reserves of credit institutions over the maintenance period set, as published by the ECB. The MRS holdings are remunerated at the average rate of the Eurosystem's main refinancing operations valid over the given maintenance period. Excess reserves bear no interest.

The deposit facility represents overnight deposits at a pre-specified interest rate.

12. Other Liabilities to Euro Area Credit Institutions Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Liabilities from repo transactions	3,735,214	281,595
Tri-party repo transactions	1,850,000	
Liabilities from repo transactions with gold	43,644	44,659
Deposits received for repo transactions	2,301	2,144
Interbank clearing in Slovakia (SIPS)	3,682	418
	5,634,841	**328,816**

As at 31 December 2012, this item represents mainly liabilities from repo transactions to Euro Area Credit Institutions denominated in EUR.

13. Liabilities to Other Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Public authority	2,606,615	620
Other liabilites	183,939	159,382
	2,790,554	**160,002**

Public authority

As at 31 December 2012, the NBS recognized within this caption term deposit from the Ministry of Finance of the Slovak republic (subsequently "MFSR") amounting to EUR 2,200,000 thousand, and current accounts of the State treasury amounting to EUR 406,615 thousand as at 31 December 2012 (EUR 620 thousand as at 31 December 2011).

Other Liabilities

EUR '000	31 Dec 2012	31 Dec 2011
Client current accounts	11,511	11,234
Client term deposits	26,787	28,676
Current accounts of auxiliary financial institutions	331	267
Term deposits of auxiliary financial institutions	145,310	119,205
	183,939	**159,382**

As at 31 December 2012 and 31 December 2011, the Bank recognized within this item current accounts and deposits from clients and auxiliary financial institutions (the Deposit Protection Fund and the Investment Guarantee Fund).

14. Liabilities to Non-Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2012	31 Dec 2011
Tri-party repo transactions		690,000
Liabilities from repo transactions with gold	673,587	570,108
Liabilities from repo transactions	1,006	226,058
Liabilities from term deposits	2,840,000	
Liabilities to international financial institutions	4,512	4,546
Clients loro accounts	6	
Deposits received for repo transactions	295	3,036
	3,519,406	**1,493,748**

As at 31 December 2012 the Bank recognizes within this item mainly liabilities from term deposits received from non-euro area Central banks.

15. Liabilities to Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2012	31 Dec 2011
Liabilities from repo transactions with gold	90,288	90,484
Current accounts in the State Treasury in foreign currency	16	13
	90,304	**90,497**

16. Liabilities to Non-Euro Area Residents Denominated in Foreign Currency

As at 31 December 2012, this caption included liabilities from long-term repo transactions with gold denominated in US dollars in the total amount of EUR 64,970 thousand (EUR 65,368 thousand as at 31 December 2011).

17. Counterpart of Special Drawing Rights Allocated by the IMF

As at 31 December 2012, the Bank recorded a liability to the IMF from the allocation of EUR 396,896 thousand (EUR 404,046 thousand as at 31 December 2011). The liability from the allocation is denominated in XDR. The IMF allocated XDR 265 million as part of the general allocation and XDR 75 million as part of a special allocation to Slovakia.

18. Other Liabilities

EUR '000	31 Dec 2012	31 Dec 2011
Off-balance sheet instruments revaluation differences		10,395
Accruals and income collected in advance	158,404	228,796
Sundry	1,013,422	929,837
	1,171,826	**1,169,028**

Accruals and Income Collected in Advance

As at 31 December 2012, the major part of accruals represented interest expense from interest rate swaps in euro of EUR 154,043 thousand (EUR 214,851 thousand as at 31 December 2011).

Sundry

EUR '000	31 Dec 2012	31 Dec 2011
Interest rate swaps	395,196	336,807
Deposits – collaterals to derivatives	358,120	338,220
Euro coins in circulation	125,987	115,605
SKK banknotes in circulation	82,732	86,902
SKK coins in circulation	47,138	47,221
Other	4,249	5,082
	1,013,422	**929,837**

The purpose of deposits received – collateral for derivatives – is to secure the NBS credit risk in respect of a decrease in the value of the swap on the part of the counterparty (see Section B, Note f).

19. Provisions

EUR '000	31 Dec 2012	31 Dec 2011
General provision for financial risks	250,000	
Provisions for payables to employees	3,370	3,668
Provisions for legal disputes	3,153	3,356
Provisions for unbilled supplies	613	719
	257,136	**7,743**

As at 31 December 2012, the Bank created a general provision for financial risks in order to protect against foreign exchange, interest rate, credit risks and risk from change of gold prices. The amount of provision is reassessed on an annual basis based on the decision of the Bank Board. In accordance with the decision of Bank Board, the provision will be used to cover future realized and unrealized losses from financial activities.

20. Revaluation Accounts

EUR '000	31 Dec 2012	31 Dec 2011
Revaluation accounts of gold	651,733	606,583
Revaluation accounts of securities	528,805	131,698
Revaluation accounts of derivatives	19,664	16,300
Revaluation accounts of foreign currency	10,101	10,120
	1,210,303	**764,701**

21. Capital and Reserves

EUR '000	31 Dec 2012	31 Dec 2011
Capital	16,041	16,041
Reserves	341,756	341,756
	357,797	**357,797**

Capital

This item includes the statutory fund representing the paid-up capital assumed from separation of the balance sheet of the former State Bank of Czechoslovakia, which has been in the amount of EUR 15,490 thousand since the establishment of the NBS, and the assumed registered capital of the Financial Market Authority (Úrad pre finančný trh, "ÚFT") in the amount of EUR 551 thousand. With effect from 1 January 2006, the ÚFT was dissolved and merged with the NBS in accordance with the applicable law.

Reserves

Reserves consist of general reserves and capital reserves.

As at 31 December 2012, the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2011). The general reserves consist of contributions from profits of EUR 337,412 thousand generated from previous years. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT's reserve fund of EUR 3,462 thousand was transferred to the NBS reserves.

As at 31 December 2012, the NBS's capital reserves amounted to EUR 882 thousand (EUR 882 thousand as at 31 December 2011).

Summary of Changes in Equity and Accumulated Losses

	EUR '000	Statutory fund	Capital reserves	General reserves	General provision for financial risks	Revaluation accounts profit / (loss)	Accumulated (loss) from previous years	Profit / (loss) of current year
1.	**Balance as at 31 December 2011**	**16,041**	**882**	**340,874**		**764,701**	**(5,529,158)**	**(76,734)**
2.	Transfer of loss for 2011 to accumulated loss from previous year						(76,734)	76,734
3.	Transfer to statutory fund							
4.	Transfer to reserves							
5.	Creation of general provision for financial risks				250,000			
6.	Change in revaluation accounts of securities					397,107		
7.	Change in revaluation accounts of derivatives					3,364		
8.	Change in revaluation accounts of gold					45,150		
9.	Change in revaluation accounts of foreign currencies					(19)		
10.	Profit for the current reporting period							199,439
11.	Change for the reporting period				250,000	445,602	(76,734)	276,173
12.	**Balance as at 31 December 2012**	**16,041**	**882**	**340,874**	**250,000**	**1,210,303**	**(5,605,892)**	**199,439**

22. Off-Balance Sheet Instruments

EUR '000	31 Dec 2012		31 Dec 2011	
	Receivables	Liabilities	Receivables	Liabilities
Currency swaps in EUR (forward leg)	105,526		278,310	
Currency swaps in USD (forward leg)		52,297		238,813
Currency swaps in JPY (forward leg)		24,153		27,385
Currency swaps in GBP (forward leg)		24,874		22,507
	105,526	**101,324**	**278,310**	**288,705**

EUR '000	31 Dec 2012		31 Dec 2011	
	Receivables	Liabilities	Receivables	Liabilities
Interest rate futures in EUR	297,000			68,200
Interest rate futures in USD		53,054		20,867
	297,000	**53,054**		**89,067**

23. Net Interest Income

EUR '000	31 Dec 2012	31 Dec 2011
Investments in EUR	375,436	376,485
Investments in foreign currency	3,638	4,734
Monetary operations	116,999	67,324
net interest income from securities	104,632	73,066
net interest income from loans and deposits	15,715	3,142
net interest expense from MRS	(3,348)	(8,884)
Interest income on foreign reserve assets	3,042	4,301
Remuneration of eurobanknotes	(4,968)	(2,057)
Remuneration of TARGET2	(49,481)	(143,684)
	444,666	**307,103**

The most significant part of the income from investments in EUR is represented by the net interest income from securities.

24. Net Result of Financial Operations, Write-Downs and Risk Provisions

EUR '000	31 Dec 2012	31 Dec 2011
Gains realized from financial operations	**168,124**	**115,700**
Net gains from interest rate swaps	120,246	117,131
Net foreign exchange gains from daily valuation	333	11,808
Net gains from sale of securities	47,510	11,647
Net foreign exchange gain / (loss) from other operations	35	(12)
Net (losses) from options		(24,874)
Write-downs on financial assets and positions	**(200,949)**	**(461,988)**
Losses from derivatives valuation	(197,534)	(233,329)
Losses from securities valuation	(2,899)	(221,795)
Losses from foreign currency valuation	(516)	(6,864)
Creation and use of general provision for financial risks	**(250,000)**	**0**
General provision for financial risks	(250,000)	
	(282,825)	**(346,288)**

25. Net Result from Fees and Commissions

EUR '000	31 Dec 2012	31 Dec 2011
Fees and commissions income	**1,166**	**2,830**
Fees and commissions in operation with securities	677	2,455
Fees and commissions received from clients	426	288
Fees received from exchange of euro coins	62	78
Other	1	9
Fees and commissions expense	**(1,235)**	**(1,270)**
Fees and commissions in operations with securities	(10)	(2)
Fees and commissions paid to banks	(1,149)	(1,160)
Fees related to interest rate futures	(63)	(65)
Fees for TARGET2	(8)	(38)
Other	(5)	(5)
	(69)	**1,560**

Since 2012 the Bank recognizes fees relating to payment systems in operating expenses and revenues. The 2011 comparatives were adjusted accordingly.

26. Income from Equity Shares and Participating Interests

EUR '000	31 Dec 2012	31 Dec 2011
Income on the ECB profit of the current year	5,694	6,461
Participating interest in the ECB`s net profit from previous year	755	1,697
Dividends from shares and participating interest	1,057	934
	7,506	**9,092**

Participating interest in the ECB`s net profit for current year comprises income on euro banknotes in circulation. By the Decision of the ECB Governing Council of 10 January 2013, the ECB's income from euro banknotes in circulation in the amount of EUR 574,627 thousand was partially redistributed among the national central banks of the Eurosystem.

In relation to the participating interest in BIS, as at 31 December 2012 the Bank recorded dividends received from BIS shares of EUR 1,057 thousand (EUR 934 thousand as at 31 December 2011).

27. Net Result of Pooling of Monetary Income

Monetary income pooled by the NBS for 2012 into the common pool of the monetary income of the Eurosystem was EUR 147,191 thousand. Monetary income corresponding to the 0.9910% share of the NBS in the common pool was EUR 231,939 thousand. The difference of EUR 84,748 thousand (EUR 15,408 thousand as at 31 December 2011) represents the net result arising from the pooling of monetary income.

The correction of the monetary income of the Eurosystem for 2009, 2010 and 2011 resulted in the NBS achieving a net income of EUR 327 thousand (costs of EUR 188 thousand as at 31 December 2011).

28. Other Income and Other Expenses

As at 31 December 2012, most of the Bank's other income represented income from fees and contributions from financial market entities of EUR 3,875 thousand (EUR 4,281 thousand as at 31 December 2011), income from sales of commemorative coins of EUR 2,352 thousand (EUR 3,788 thousand as at 31 December 2011) and earned fees from participations of settlement system SIPS of EUR 2,030 thousand (EUR 1,900 thousand as at 31 December 2011).

As at 31 December 2012, the Bank's other expenses mainly represented costs of the minting of coins in circulation and collector coins of EUR 3,680 thousand (EUR 6,585 thousand as at 31 December 2011).

29. Staff Costs

EUR '000	31 Dec 2012	31 Dec 2011
Wages and salaries	(21,879)	(22,242)
Social security costs	(7,497)	(7,648)
Other employee costs	(3,211)	(3,423)
	(32,587)	**(33,313)**

As at 31 December 2012, the average FTE number of employees was 1,020 (1,073 as at 31 December 2011), of whom 93 were managers (99 as at 31 December 2011).

Wages and employee benefits of the Bank Board's members for 2012 amounted to EUR 1,066 thousand (EUR 812 thousand in 2011). As at 31 December 2012, the Bank recorded no outstanding loans to the members of the Bank Board, accordingly as at 31 December 2011.

30. Administrative Expenses

As at 31 December 2012, this item mainly included costs of technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totaling EUR 9,660 thousand (EUR 10,128 thousand as at 31 December 2011).

Costs of audit of the financial statements by the auditor represented EUR 71 thousand as at 31 December 2012 (EUR 71 thousand as at 31 December 2011). As at 31 December 2011, the Bank did not record any costs of assurance and audit services and tax consulting as per Article 18 (6) of the Act on Accounting.

31. Depreciation of Tangible and Intangible Fixed Assets

EUR '000	31 Dec 2012	31 Dec 2011
Depreciation of tangible fixed assets	(6,866)	(7,399)
Depreciation of intangible fixed assets	(2,633)	(2,943)
	(9,499)	**(10,342)**

32. Banknote Production Services

As at 31 December 2012, the cost of printing euro banknotes amounted to EUR 143 thousand (EUR 3,070 thousand as at 31 December 2011).

33. Profit / (Loss) for the Year

The result of the Bank's operations as at 31 December 2012 was a profit of EUR 199,439 thousand (loss of EUR 76,734 thousand as at 31 December 2011). The Bank Board decided that the profit would be allocated to cover the accumulated loss from previous years. The reported profit was largely affected by net interest income and net result of financial operations, write-downs and risk provisions (see Note 23 and 24).

D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 21 February 2013, the ECB Governing Council decided to distribute the ECB's net profit for 2012 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 4,196 thousand from the distribution of profit is accounted in the 2013 reporting period.

No significant events occurred subsequent to 31 December 2012 that would require any adjustments to the 2012 financial statements.

Bratislava, 19 March 2013

doc. Ing. Jozef Makúch, PhD.
Governor

Ing. Miroslav Uhrín
Executive Director
Division for
Financial Management,
Information Technology and
Facility Services

Ing. Katarína Taragelová
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Appendix to the auditor's report
on the consistency of annual report with audited financial statements
in accordance with Act No. 540/2007 Z.z. § 23 par. 5

To the Bank Board of the National Bank of Slovakia:

I. We have audited the financial statements of National Bank of Slovakia ("the Bank") as at 31 December 2012 presented in the annual report on pages 75 – 97. We issued the following audit report dated 19 March 2013 on the financial statements:

"Indepenent Auditors' Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia ('the Bank'), which comprise the balance sheet as at 31 December 2012, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of the National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

19 March 2013
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský
SKAU Licence No.893"

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II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of the National Bank of Slovakia is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2012. We have not audited information that has not been derived from audited financial statements or Bank accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Bank as at 31 December 2012 and is in accordance with the Act No 566/1992 Coll. on the National Bank of Slovakia, as amended and special regulations valid for the Eurosystem.

30 April 2013
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
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Ing. Dalimil Draganovský
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List of Charts

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Abbreviations

Basel III	A global regulatory framework for more resilient banks and banking system; http://www.bis.org/publ/bcbs189_dec2010.pdf
BCPB, a.s.	Bratislava stock exchange "Burza cenných papierov v Bratislave, a.s."
BIS	Bank for International Settlement
CDCP, a.s.	Central securities depositary "Centrálny depozitár cenných papierov SR, a.s."
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESCB	European System of Central Banks
ESMA	European Securities Markets Expert Group
ESRB	Systemic Risk Board
EU	European Union
EUR	euro/€
FMS Unit	Financial Market Supervision Unit
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
ISIN	International Securities Identification Number
IMF	International Monetary Fund
KIID	Key Investor Information Document
NBS	Národná banka Slovenska
NCB	National Central Bank
OECD	Organisation for Economic Co-operation and Development
p. a.	per annum
p. p.	percentage point
SKK	Slovak koruna
SR	Slovak Republic
STATUS DFT	STATUS application software for financial market surpervision
SO SR	Statistical Office of the Slovak Republic
TARGET2	New generation of the Trans-European Automated Real-time Gross Settlement Express Transfer
UCITS	undertakings for collective investment in transferable securities UDF